

# **Lake Orion Community Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2010**

# 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, 2010, 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, 2010 and the respective changes in financial position, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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 not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 29, 2010 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, 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 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 29, 2010

# 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, 2010. 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 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 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, 2010 and 2009.

TABLE I

	Governmental Activities	
	2010	2009
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 25.9	\$ 30.2
Capital assets	157.1	160.5
Total assets	183.0	190.7
<b>Liabilities</b>		
Current liabilities	22.9	19.2
Long-term liabilities	142.8	153.3
Total liabilities	165.7	172.5
<b>Net Assets</b>		
Invested in property and equipment - Net of related debt	10.5	5.8
Restricted	0.7	0.8
Unrestricted	6.1	11.6
Total net assets	<u>\$ 17.3</u>	<u>\$ 18.2</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 \$17.3 million at June 30, 2010 and \$18.2 million at June 30, 2009. Capital assets, net of related debt totaling \$10.5 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$0.7 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, \$6.1 million, was unrestricted.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

The \$6.1 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 2010 and 2009.

TABLE 2

	Governmental Activities	
	2010	2009
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4.0	\$ 3.9
Operating grants	14.8	8.9
General revenue:		
Property taxes	24.1	25.3
State foundation allowance	51.4	53.7
Federal stabilization funds	2.2	2.9
Other	1.4	1.7
Total revenue	<u>97.9</u>	<u>96.4</u>
<b>Functions/Program Expenses</b>		
Instruction	51.9	45.6
Support services	29.9	28.7
Food service	2.4	2.3
Athletics	1.2	1.2
Community services	1.8	1.9
Interest on long-term debt	7.6	7.8
Depreciation (unallocated)	4.0	4.0
Total functions/program expenses	<u>98.8</u>	<u>91.5</u>
<b>(Decrease) Increase in Net Assets</b>	<u><u>\$ (0.9)</u></u>	<u><u>\$ 4.9</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 \$98.8 million. Certain activities were partially funded from those who benefited from the programs, \$4.0 million, or by other governments and organizations that subsidized certain programs with grants and contributions of \$14.8 million. We paid for the remaining "public benefit" portion of our governmental activities with \$24.1 million in taxes, \$51.4 million in state foundation allowance, \$2.2 million in federal stabilization funds, and with our other revenues, 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 revenues 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
	2010		2009	
	(in millions)		(in millions)	
Instruction	\$ 51.9	\$ 42.1	\$ 45.6	\$ 39.8
Support services	29.9	25.5	28.7	26.1
Athletics	1.2	0.8	1.2	0.8
All others	15.8	11.7	16.0	12.0
<b>Total</b>	<b>\$ 98.8</b>	<b>\$ 80.1</b>	<b>\$ 91.5</b>	<b>\$ 78.7</b>

The School District experienced a decrease in net assets of \$0.9 million. The net assets invested in capital assets (net of related debt) increased by \$4.7 million. Net assets restricted for debt service and capital projects decreased by \$0.1 million. The unrestricted net asset balance decreased by \$5.5 million. Additionally, long-term debt decreased by \$10.5 million, and the net capital assets balance remains virtually unchanged.

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 \$15.5 million, which is a decrease of \$4.9 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	\$ 18,494,693	\$ 1,884,377	\$ 20,379,070
Decrease	(4,902,861)	(5,071)	(4,907,932)
Fund balance - End of year	<u>\$ 13,591,832</u>	<u>\$ 1,879,306</u>	<u>\$ 15,471,138</u>

In the General Fund, our principal operating fund, the fund balance decreased by \$4.9 million from 2009. Revenue increased by \$2.3 million from 2009, while expenditures and operating transfers out increased by \$7.2 million. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes.

The other nonmajor funds remained virtually unchanged during the year ended June 30, 2010.

### 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 required supplemental information of these financial statements.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2009-2010 General Fund budget. One significant change was the consolidation of the Special Education Fund with the General Fund. These funds are automatically combined at the State level and used for comparison purposes; therefore, combining them at the district level was considered to be more accurate and transparent. The addition of federal funds being provided by the American Recovery and Reinvestment Act generated revenue and expenditures. Revisions to the expenditures and operating transfers out were due to adjustments based on more accurate information, including, but not limited to, final amounts related to an employee early retirement incentive.

There were four areas of significant variance between the final budget amounts and actual, based on dollar amount and percentage. Federal revenue sources were less than budgeted by \$1.3 million, added needs expenditures were less than budgeted by \$1.3 million, and instruction improvement expenditures were less than budgeted by \$0.4 million. All three of these areas are mainly due to grants, which have equal revenue and expenditures. Unspent grant funds will be utilized in 2010-2011. Additionally, business services actual expenditures were greater than budgeted by \$0.1 million. This was due mainly to a larger amount of tax abatements than planned. No other areas of significance were noted.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2010, the School District had \$157.1 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 \$3.35 million or 2.1 percent, from last year.

	2010	2009
Land	\$ 13,421,804	\$ 13,421,804
Buildings and building improvements	195,581,339	195,483,084
Buses and other vehicles	4,545,762	4,608,618
Furniture and equipment	9,598,915	9,468,985
Subtotal	223,147,820	222,982,491
Accumulated depreciation	66,018,425	62,503,622
Net capital assets	<u>\$ 157,129,395</u>	<u>\$ 160,478,869</u>

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

The decrease of \$3.35 million in the fiscal year 2010 (net of current year depreciation) is due to the current year's depreciation being greater than the amount of additions. The 2002 Capital Project Fund was completed during 2009-2010. 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 \$131.9 million in bonds outstanding versus \$140.4 million in the previous year - a change of 6.0 percent. Those bonds consisted of the following:

	<u>2010</u>	<u>2009</u>
General obligation bonds	<u>\$ 131,900,000</u>	<u>\$ 140,385,000</u>

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 \$131.9 million is below the \$257.0 million statutorily imposed limit.

Other obligations include 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 2011 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by foundation allowance per pupil. The blended count for the 2011 fiscal year is 25 percent of the February 2010 and 75 percent of the September 2010 student counts. The 2010-2011 budget was adopted in June 2010, based on an estimate of students that will be enrolled in September 2010. Based on early enrollment data at the start of the 2010-2011 school year, we anticipate that the fall student count will be in line with the estimates used to create the 2010-2011 budget.

Under state law, the School District cannot assess additional property tax revenue for general operations. Instead, School District funding is heavily dependent on the State's ability to fund local school operations. Considering the difficult economic times facing our state, the ability of the State to fund schools at the current level seems unrealistic at best.

# Lake Orion Community Schools

## Management's Discussion and Analysis (Continued)

As has become the norm, with the school year underway there is much speculation and little factual information. On the federal level, a small portion of the American Recovery and Reinvestment Act of 2009 funds remains in the School Aid Fund at the state level. Originally, those funds were meant to stabilize education funding through 2010-2011. Additional federal money was made available this year through the Federal Education Jobs Fund. These funds were granted at the state level for disbursement. To date, the allocation method has yet to be determined. Local districts are unsure of the funding they can expect.

At the state level, in an unprecedented move, the legislature approved the transfer of over \$208 million out of the School Aid Fund. While the original transfer was to community colleges, an immediate transfer moved the funds to the State's General Fund. These funds have been termed as a loan, but that is not a legally binding definition. Amidst an election year and continued uncertain economic times, discussions of mid-year prorations are prevalent. Much speculation is also surrounding the retirement rate. At the end of 2009-2010, the State offered a one-time retirement incentive to school employees. In combination with the incentive, the State also implemented a new hybrid plan for future employees. The results of this strategy, and more importantly its effect on local districts, are still unknown.

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 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.

The School District has prepared an in-depth budget process for the development of the 2011-2012 budget. We feel it is critical to include all of our stakeholders in our budget discussions. 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 2010-2011, 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, 2010

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 13,621,519
Receivables (Note 4)	11,276,712
Other assets	118,879
Restricted assets (Notes 1 and 3)	847,697
Capital assets - Net (Note 5)	<u>157,129,395</u>
Total assets	182,994,202
<b>Liabilities</b>	
Accounts payable	229,652
Accrued payroll and other liabilities	10,562,316
Deferred revenue (Note 4)	265,180
Long-term liabilities (Note 7):	
Due within one year	11,769,008
Due in more than one year	<u>142,846,550</u>
Total liabilities	<u>165,672,706</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	10,542,710
Restricted for debt service	659,655
Unrestricted	<u>6,119,131</u>
Total net assets	<u><u>\$ 17,321,496</u></u>

# Lake Orion Community Schools

## Statement of Activities Year Ended June 30, 2010

	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	\$ 51,915,609	\$ -	\$ 9,813,889	\$ (42,101,720)
Support services	29,942,908	226,627	4,205,952	(25,510,329)
Food services	2,401,276	1,726,457	865,150	190,331
Athletics	1,218,673	412,313	-	(806,360)
Community services	1,782,105	1,611,969	-	(170,136)
Interest on long-term debt	7,579,386	-	-	(7,579,386)
Depreciation (unallocated)	4,001,485	-	-	(4,001,485)
<b>Total primary government - Governmental activities</b>	<b>\$ 98,841,442</b>	<b>\$ 3,977,366</b>	<b>\$ 14,884,991</b>	<b>(79,979,085)</b>
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				9,234,359
Property taxes - Levied for debt services				14,748,701
Property taxes - Delinquent				75,302
State aid not restricted to specific purposes				51,394,094
Federal stabilization funds				2,196,819
Interest and investment earnings				143,704
Other				1,301,862
			<b>Total general revenue</b>	<b>79,094,841</b>
			<b>Change in Net Assets</b>	<b>(884,244)</b>
			<b>Net Assets - Beginning of year</b>	<b>18,205,740</b>
			<b>Net Assets - End of year</b>	<b>\$ 17,321,496</b>

# Lake Orion Community Schools

## Governmental Funds Balance Sheet June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 12,575,612	\$ 1,893,604	\$ 14,469,216
Receivables (Note 4):			
Accounts receivable	122,103	-	122,103
Due from other governmental units	11,094,714	59,895	11,154,609
Due from other funds (Note 6)	162,149	113,160	275,309
Other assets	100,000	18,879	118,879
	<u>100,000</u>	<u>18,879</u>	<u>118,879</u>
Total assets	<u><b>\$ 24,054,578</b></u>	<u><b>\$ 2,085,538</b></u>	<u><b>\$ 26,140,116</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 297,154	\$ 12,248	\$ 309,402
Accrued payroll and other liabilities	9,743,020	-	9,743,020
Due to other funds (Note 6)	52,535	143,024	195,559
Deferred revenue (Note 4)	370,037	50,960	420,997
	<u>370,037</u>	<u>50,960</u>	<u>420,997</u>
Total liabilities	10,462,746	206,232	10,668,978
<b>Fund Balances</b>			
Reserved:			
Inventories and prepaid costs	100,000	18,879	118,879
Debt Service	-	659,655	659,655
Capital Projects	-	164,465	164,465
Unreserved:			
Designated for:			
General Fund (Note 9)	1,849,000	-	1,849,000
Long-term obligations (Note 9)	2,935,427	-	2,935,427
Undesignated, reported in:			
General Fund	8,707,405	-	8,707,405
Special Revenue Funds	-	1,036,307	1,036,307
	<u>8,707,405</u>	<u>1,036,307</u>	<u>9,743,712</u>
Total fund balances	<u>13,591,832</u>	<u>1,879,306</u>	<u>15,471,138</u>
Total liabilities and fund balances	<u><b>\$ 24,054,578</b></u>	<u><b>\$ 2,085,538</b></u>	<u><b>\$ 26,140,116</b></u>

# Lake Orion Community Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2010

<b>Fund Balances</b> - Total governmental funds		\$ 15,471,138
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	\$ 223,147,820	
Accumulated depreciation	<u>(66,018,425)</u>	157,129,395
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	(132,093,468)	
Compensated absences	(2,800,427)	
School Bond Loan Fund	(19,227,435)	
School Loan Revolving Fund	(359,228)	
Self-insurance	<u>(135,000)</u>	(154,615,558)
Deferred revenue is recorded in the funds if not collected or collectible within 60 days of year end		155,817
Accrued interest payable is not included as a liability in governmental funds		<u>(819,296)</u>
<b>Net Assets</b> - Governmental activities		<b><u>\$ 17,321,496</u></b>

# Lake Orion Community Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 10,839,331	\$ 18,577,814	\$ 29,417,145
State sources	56,085,452	86,242	56,171,694
Federal sources	6,549,246	778,908	7,328,154
Interdistrict sources	4,820,239	-	4,820,239
Total revenue	78,294,268	19,442,964	97,737,232
<b>Expenditures</b>			
Current:			
Instruction	51,668,997	-	51,668,997
Support services	29,128,835	-	29,128,835
Food services	-	2,401,276	2,401,276
Athletics	-	1,218,673	1,218,673
Community services	338,072	1,444,033	1,782,105
Debt service:			
Principal	-	8,485,000	8,485,000
Interest	-	7,663,229	7,663,229
Other	-	103,538	103,538
Capital outlay	1,332,365	244,688	1,577,053
Total expenditures	82,468,269	21,560,437	104,028,706
<b>Excess of Expenditures Over Revenue</b>	(4,174,001)	(2,117,473)	(6,291,474)
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of capital assets	77,500	-	77,500
Transfers in (Note 6)	-	866,985	866,985
Transfers out (Note 6)	(806,360)	(60,625)	(866,985)
School Bond Loan Fund debt issued	-	1,306,042	1,306,042
Total other financing sources (uses)	(728,860)	2,112,402	1,383,542
<b>Net Change in Fund Balances</b>	(4,902,861)	(5,071)	(4,907,932)
<b>Fund Balances - Beginning of year</b>	18,494,693	1,884,377	20,379,070
<b>Fund Balances - End of year</b>	<b>\$ 13,591,832</b>	<b>\$ 1,879,306</b>	<b>\$ 15,471,138</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, 2010

**Net Change in Fund Balances** - Total governmental funds \$ (4,907,932)

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	\$(4,001,485)	
Capitalized capital outlay	<u>665,362</u>	(3,336,123)

The net effect of the sale of transactions involving capital assets that decreased net assets including disposals (13,351)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end 155,817

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 (1,306,042)

Amortization of deferred charges is reported as income in the statement of activities (301,914)

Amortization of bond premium and issuance costs is recorded as an expense in the statement of activities 330,495

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 8,485,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 55,262

Compensated absences, as well as the estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than paid out (45,456)

**Change in Net Assets of Governmental Activities** **\$ (884,244)**

# Lake Orion Community Schools

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## Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2010

	Student Activities <u>Agency Fund</u>
<b>Assets - Cash and investments</b>	<b><u>\$ 738,374</u></b>
<b>Liabilities</b>	
Due to other funds	\$ 79,750
Due to student and other groups	<u>658,624</u>
 Total liabilities	 <b><u>\$ 738,374</u></b>

# Lake Orion Community Schools

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**Notes to Financial Statements  
June 30, 2010**

## **Note I - 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.

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.

## **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, Athletics, and Community Services Funds. Any operating deficit generated by these funds is the responsibility of the General Fund.

**Debt Service Funds** - The 2000, 2002, 2005, and 2006 Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2000, 2002, 2005, and 2006 bond issues or bond refundings, respectively.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2010

### 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.

**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 deferred revenue until used. 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.

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

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

**Restricted Assets** - The unspent bond proceeds and related interest of the 2002 Capital Projects Fund require amounts to be set aside for construction. In addition, the unspent property taxes levied in the Debt Service Funds are required to be set aside for future bond principal and interest payments. These amounts have been classified as restricted assets.

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

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.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2010

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

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.

**Fund Balance** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

**Upcoming Accounting Pronouncements** - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The School District will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2010

### 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 and by fund, function, and object for the Special Education 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 and the object level within each function for the Special Education Fund. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

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

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the School District incurred expenditures in the General Fund which were in excess of the amounts budgeted for business services. Budgeted and actual amounts were \$1,122,898 and \$1,240,211, respectively. There are also 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. 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 12 banks for the deposit of its funds.

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 are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$16,705,874 had \$16,238,086 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.

**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.

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

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

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

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

**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.

### Note 4 - Receivables

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

	General Fund	Nonmajor Governmental Funds	Total
Receivables:			
Accounts	\$ 122,103	\$ -	\$ 122,103
Intergovernmental	<u>11,094,714</u>	<u>59,895</u>	<u>11,154,609</u>
Net receivables	<u>\$ 11,216,817</u>	<u>\$ 59,895</u>	<u>\$ 11,276,712</u>

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

### Note 4 - Receivables (Continued)

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 unavailable and unearned as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Inventory commodities	\$ -	\$ 50,960
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>155,817</u>	<u>214,220</u>
Total	<u>\$ 155,817</u>	<u>\$ 265,180</u>

### Note 5 - Capital Assets

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

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated - Land	\$ 13,421,804	\$ -	\$ -	\$ 13,421,804
Capital assets being depreciated:				
Building and building improvements	195,483,084	98,255	-	195,581,339
Buses and other vehicles	4,608,618	437,177	500,033	4,545,762
Furniture and equipment	<u>9,468,985</u>	<u>129,930</u>	<u>-</u>	<u>9,598,915</u>
Subtotal	209,560,687	665,362	500,033	209,726,016
Accumulated depreciation:				
Building and building improvements	50,390,595	3,453,673	-	53,844,268
Buses and other vehicles	3,680,537	301,669	486,682	3,495,524
Furniture and equipment	<u>8,432,490</u>	<u>246,143</u>	<u>-</u>	<u>8,678,633</u>
Subtotal	<u>62,503,622</u>	<u>4,001,485</u>	<u>486,682</u>	<u>66,018,425</u>
Net capital assets being depreciated	<u>147,057,065</u>	<u>(3,336,123)</u>	<u>13,351</u>	<u>143,707,591</u>
Net governmental capital assets	<u>\$ 160,478,869</u>	<u>\$ (3,336,123)</u>	<u>\$ 13,351</u>	<u>\$ 157,129,395</u>

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

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

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

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Fund	
General Fund	\$ -	\$ 82,399	\$ 79,750	\$ 162,149
Nonmajor governmental funds	<u>52,535</u>	<u>60,625</u>	<u>-</u>	<u>113,160</u>
Total	<u>\$ 52,535</u>	<u>\$ 143,024</u>	<u>\$ 79,750</u>	<u>\$ 275,309</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.

#### Interfund Transfers

	Transfers Out	
	General Fund	Nonmajor Governmental Funds
Transfers in - Nonmajor governmental funds	<u>\$ 806,360</u>	<u>\$ 60,625</u>

Transfers subsidized operations in the Athletics Fund and there was a transfer between the 2000 Debt Fund and the 2006 Debt 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 compensated absences, School Bond Loan Fund, School Loan Revolving Fund, and certain risk liabilities.

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

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

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 140,385,000	\$ -	\$ 8,485,000	\$ 131,900,000	\$ 8,940,000
Less deferred amounts:					
Bond premium	5,611,576	-	385,476	5,226,100	385,476
Bond issuance costs	(825,499)	-	(54,981)	(770,518)	(54,981)
Deferred charges from refunding bonds	(4,564,028)	-	(301,914)	(4,262,114)	(301,914)
Total bonds payable	140,607,049	-	8,513,581	132,093,468	8,968,581
Other obligations	21,170,595	2,358,127	1,006,630	22,522,090	2,800,427
Total governmental activities	\$ 161,777,644	\$ 2,358,127	\$ 9,520,211	\$ 154,615,558	\$ 11,769,008

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

	Governmental Activities		
	Principal	Interest	Total
2011	\$ 8,940,000	\$ 6,296,160	\$ 15,236,160
2012	9,160,000	5,873,275	15,033,275
2013	9,430,000	5,415,275	14,845,275
2014	9,410,000	4,961,775	14,371,775
2015	9,870,000	4,504,685	14,374,685
2016-2020	50,890,000	15,526,698	66,416,698
2021-2025	32,515,000	4,984,065	37,499,065
2026-2027	1,685,000	110,686	1,795,686
Total	\$ 131,900,000	\$ 47,672,619	\$ 179,572,619

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

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

#### Governmental Activities

General obligation bonds consist of the following:

\$58,035,000 - 2002 general obligation bonds due in annual installments of \$3,920,000 to \$4,500,000 through May 2018; interest at 4.30 percent to 5.00 percent	\$ 33,735,000
\$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 percent to 5.00 percent	52,890,000
\$45,275,000 - 2006 refunding bonds due in annual installments of \$840,000 to \$5,940,000 through May 2027; interest at 4.0 percent to 5.00 percent	<u>45,275,000</u>
Total bonded debt	<u>\$ 131,900,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 2,800,427
School Bond Loan Fund	19,227,435
School Loan Revolving Fund	359,228
Self-insurance	<u>135,000</u>
Total	<u>\$ 22,522,090</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 5.375 percent to 5.750 percent through June 30, 2010, has been assessed for the year ended June 30, 2010. 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 state equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

# Lake Orion Community Schools

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## Notes to Financial Statements June 30, 2010

### 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 ranging from 3.36194 percent to 6.34889 percent through June 30, 2010 has been assessed for the year ended June 30, 2010. 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.

**Defeased Bonds** - 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, 2010, \$101,635,000 of bonds outstanding are considered defeased.

### 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 associated with the Lake Orion Education Association. For other employee health claims, the School District is partially self-insured. 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.

# Lake Orion Community Schools

## Notes to Financial Statements June 30, 2010

### Note 8 - Risk Management (Continued)

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 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:

	2010	2009
Estimated liability - Beginning of year	\$ 220,000	\$ 175,000
Estimated claims incurred - Including changes in estimates	1,822	122,689
Claim payments	86,822	77,689
Estimated liability - End of year	<u>\$ 135,000</u>	<u>\$ 220,000</u>

### Note 9 - Fund Balance Designations

Management has designated fund balance of \$1,849,000 for the purpose of maintenance, technology, bus replacements, and textbooks. The amount has been included under the designated fund balance.

Management has also designated fund balance in the amount of \$2,935,427 for employee compensated absences and self-insurance (see Note 8). The amount has been included under the designated fund balance.

## **Note 10 - 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 supplementary 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 was 9.73 percent of covered payroll for the period from July 1, 2009 through September 30, 2009 and 10.13 percent for the period from October 1, 2009 through June 30, 2010. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3.0 percent to 4.3 percent of gross wages. For member investment plan members hired after June 30, 2009, a graduated fixed contribution rate is used, ranging from 3 percent to 6.4 percent of wages. The School District's required and actual contributions to the plan for the years ended June 30, 2010, 2009, and 2008 were \$4,727,005, \$4,484,620, and \$4,520,910, respectively.

**Note 10 - Defined Benefit Pension Plan and Postemployment Benefits  
(Continued)**

**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. For the members who first work after June 30, 2009, a graded premium health insurance subsidy has been put in place. 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 6.81 percent of covered payroll for the period from July 1, 2009 through September 30, 2009 and 6.81 percent for the period from October 1, 2009 through June 30, 2010. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2010, 2009, and 2008 were \$3,208,245, \$3,076,988, and \$2,841,174, respectively.

## **Required Supplemental Information**

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# Lake Orion Community Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 10,428,730	\$ 10,675,626	\$ 10,916,831	\$ 241,205
State sources	55,589,698	56,197,403	56,085,452	(111,951)
Federal sources	1,307,005	7,832,819	6,549,246	(1,283,573)
Interdistrict	-	4,837,348	4,820,239	(17,109)
Total revenue	67,325,433	79,543,196	78,371,768	(1,171,428)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	39,059,460	40,269,380	40,409,722	140,342
Added needs	2,403,073	13,222,290	11,922,823	(1,299,467)
Support services:				
Pupil support services	2,634,112	6,346,786	6,241,117	(105,669)
Instructional staff support services:				
Instruction improvement	290,442	1,057,947	642,830	(415,117)
Educational media services	1,273,827	1,470,278	1,442,210	(28,068)
Technology assisted instruction	-	380,818	367,675	(13,143)
Instructional staff supervision	341,959	887,954	836,579	(51,375)
General administration	1,069,791	897,944	925,579	27,635
School administration	4,812,085	4,444,819	4,402,460	(42,359)
Business services	1,397,359	1,122,898	1,240,211	117,313
Operation and maintenance	8,584,258	8,180,699	7,963,832	(216,867)
Transportation services	3,924,030	3,905,413	3,924,701	19,288
Human resources	697,554	635,991	611,863	(24,128)
Technology services	1,581,330	1,187,817	1,186,645	(1,172)
Community Services	357,339	385,826	350,022	(35,804)
Total expenditures	68,426,619	84,396,860	82,468,269	(1,928,591)
<b>Other Financing Uses - Transfers out</b>	3,904,500	829,500	806,360	23,140
<b>Net Change in Fund Balance</b>	(5,005,686)	(5,683,164)	(4,902,861)	780,303
<b>Fund Balance - July 1, 2009</b>	18,494,693	18,494,693	18,494,693	-
<b>Fund Balance - June 30, 2010</b>	<u>\$ 13,489,007</u>	<u>\$ 12,811,529</u>	<u>\$ 13,591,832</u>	<u>\$ 780,303</u>

## **Other Supplemental Information**

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# Lake Orion Community Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2010

	Special Revenue Funds			Debt Service Funds				Capital Projects Fund	Total
	Food Service	Athletics	Community Services	2000 Debt	2002 Debt	2005 Debt	2006 Debt	2002 Capital Projects Fund	
<b>Assets</b>									
Cash and investments	\$ 683,193	\$ -	\$ 362,714	\$ 64,644	\$ 67,132	\$ 191,720	\$ 359,736	\$ 164,465	\$ 1,893,604
Due from other governmental units	55,022	-	-	840	898	3,035	100	-	59,895
Due from other funds	48,041	4,494	-	-	-	-	60,625	-	113,160
Other assets	13,806	-	5,073	-	-	-	-	-	18,879
Total assets	<u>\$ 800,062</u>	<u>\$ 4,494</u>	<u>\$ 367,787</u>	<u>\$ 65,484</u>	<u>\$ 68,030</u>	<u>\$ 194,755</u>	<u>\$ 420,461</u>	<u>\$ 164,465</u>	<u>\$ 2,085,538</u>
<b>Liabilities and Fund Balances</b>									
<b>Liabilities</b>									
Accounts payable	\$ 886	\$ 4,494	\$ 6,868	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,248
Due to other funds	-	-	53,949	65,484	5,376	14,418	3,797	-	143,024
Deferred revenue	50,960	-	-	-	-	-	-	-	50,960
Total liabilities	51,846	4,494	60,817	65,484	5,376	14,418	3,797	-	206,232
<b>Fund Balances</b>									
Reserved:									
Inventories	13,806	-	5,073	-	-	-	-	-	18,879
Debt Service	-	-	-	-	62,654	180,337	416,664	-	659,655
Capital Projects	-	-	-	-	-	-	-	164,465	164,465
Unreserved - Special Revenue Funds	734,410	-	301,897	-	-	-	-	-	1,036,307
Total fund balances	748,216	-	306,970	-	62,654	180,337	416,664	164,465	1,879,306
Total liabilities and fund balances	<u>\$ 800,062</u>	<u>\$ 4,494</u>	<u>\$ 367,787</u>	<u>\$ 65,484</u>	<u>\$ 68,030</u>	<u>\$ 194,755</u>	<u>\$ 420,461</u>	<u>\$ 164,465</u>	<u>\$ 2,085,538</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, 2010

	Special Revenue Funds			Debt Service Funds				Capital Projects Fund	Total
	Food Service	Athletics	Community Services	2000 Debt	2002 Debt	2005 Debt	2006 Debt	2002 Capital Projects Fund	
<b>Revenue</b>									
Local sources	\$ 1,729,231	\$ 412,313	\$ 1,613,052	\$ 2,625,411	\$ 2,736,260	\$ 7,747,240	\$ 1,714,287	\$ 20	\$ 18,577,814
State sources	86,242	-	-	-	-	-	-	-	86,242
Federal sources	778,908	-	-	-	-	-	-	-	778,908
Total revenue	2,594,381	412,313	1,613,052	2,625,411	2,736,260	7,747,240	1,714,287	20	19,442,964
<b>Expenditures</b>									
Current:									
Food services	2,401,276	-	-	-	-	-	-	-	2,401,276
Athletics	-	1,218,673	-	-	-	-	-	-	1,218,673
Community services	-	-	1,444,033	-	-	-	-	-	1,444,033
Debt service:									
Principal	-	-	-	2,460,000	1,035,000	4,990,000	-	-	8,485,000
Interest	-	-	-	318,854	1,861,303	3,210,419	2,272,653	-	7,663,229
Other	-	-	-	17,257	18,392	49,092	16,997	1,800	103,538
Capital outlay	75,957	-	-	-	-	-	-	168,731	244,688
Total expenditures	2,477,233	1,218,673	1,444,033	2,796,111	2,914,695	8,249,511	2,289,650	170,531	21,560,437
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	117,148	(806,360)	169,019	(170,700)	(178,435)	(502,271)	(575,363)	(170,511)	(2,117,473)
<b>Other Financing Sources (Uses)</b>									
Transfers in	-	806,360	-	-	-	-	60,625	-	866,985
Transfers out	-	-	-	(60,625)	-	-	-	-	(60,625)
School bond loan funds debt issued	-	-	-	231,325	241,089	682,608	151,020	-	1,306,042
Total other financing sources	-	806,360	-	170,700	241,089	682,608	211,645	-	2,112,402
<b>Net Change in Fund Balances</b>	117,148	-	169,019	-	62,654	180,337	(363,718)	(170,511)	(5,071)
<b>Fund Balances - Beginning of year</b>	631,068	-	137,951	-	-	-	780,382	334,976	1,884,377
<b>Fund Balances - End of year</b>	<u>\$ 748,216</u>	<u>\$ -</u>	<u>\$ 306,970</u>	<u>\$ -</u>	<u>\$ 62,654</u>	<u>\$ 180,337</u>	<u>\$ 416,664</u>	<u>\$ 164,465</u>	<u>\$ 1,879,306</u>

# Lake Orion Community Schools

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2010

June 30	2002 Issue		2005 Refunding	
	Principal	Interest	Principal	Interest
2011	\$ 4,045,000	\$ 1,623,385	\$ 4,895,000	\$ 2,519,711
2012	4,270,000	1,445,250	4,890,000	2,274,961
2013	4,500,000	1,231,750	4,930,000	2,030,461
2014	4,470,000	1,024,750	4,940,000	1,783,961
2015	3,920,000	814,660	4,950,000	1,536,961
2016	4,045,000	626,500	4,950,000	1,289,461
2017	4,085,000	424,250	4,955,000	1,041,961
2018	4,400,000	220,000	4,895,000	853,671
2019	-	-	4,825,000	663,990
2020	-	-	4,830,000	422,740
2021	-	-	1,520,000	181,241
2022	-	-	1,170,000	105,241
2023	-	-	1,140,000	46,741
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
Total	<b><u>\$ 33,735,000</u></b>	<b><u>\$ 7,410,545</u></b>	<b><u>\$ 52,890,000</u></b>	<b><u>\$ 14,751,101</u></b>
Principal payments due	May 1		May 1	
Interest payments due	May/November		May/November	
Interest rate	4.30% to 5.00%		3.80% to 5.00%	
Original issue	<b><u>\$58,035,000</u></b>		<b><u>\$ 71,500,000</u></b>	

# Lake Orion Community Schools

## Other Supplementary Information (Continued) Schedule of Bonded Indebtedness Year Ended June 30, 2010

June 30	2006 Refunding		Total Principal	Total Interest
	Principal	Interest		
2011	\$ -	\$ 2,153,064	\$ 8,940,000	\$ 6,296,160
2012	-	2,153,064	9,160,000	5,873,275
2013	-	2,153,064	9,430,000	5,415,275
2014	-	2,153,064	9,410,000	4,961,775
2015	1,000,000	2,153,064	9,870,000	4,504,685
2016	1,000,000	2,113,064	9,995,000	4,029,025
2017	1,000,000	2,073,064	10,040,000	3,539,275
2018	1,000,000	2,033,064	10,295,000	3,106,735
2019	5,330,000	1,993,064	10,155,000	2,657,054
2020	5,575,000	1,771,869	10,405,000	2,194,609
2021	5,560,000	1,493,119	7,080,000	1,674,360
2022	5,545,000	1,215,119	6,715,000	1,320,360
2023	5,780,000	937,868	6,920,000	984,609
2024	5,860,000	648,868	5,860,000	648,868
2025	5,940,000	355,868	5,940,000	355,868
2026	840,000	73,718	840,000	73,718
2027	845,000	36,968	845,000	36,968
Total	<b><u>\$ 45,275,000</u></b>	<b><u>\$ 25,510,973</u></b>	<b><u>\$ 131,900,000</u></b>	<b><u>\$ 47,672,619</u></b>
Principal payments due	May 1			
Interest payments due	May/November			
Interest rate	4.00% to 5.00%			
Original issue	<b><u>\$ 45,275,000</u></b>			