

Lake Orion Community Schools

**Financial Report
with Supplemental Information
June 30, 2011**

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, 2011, 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, 2011 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.

During the year, the School District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note I. As a result of this requirement implementation, the Athletic Fund, previously classified as a special revenue fund, is now reported as part of the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

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.

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.

To the Board of Education
Lake Orion Community Schools

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 28, 2011 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 28, 2011

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, 2011. 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.

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

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

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net 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, 2011 and 2010.

TABLE I

	Governmental Activities	
	2011	2010
	(in millions)	
Assets		
Current and other assets	\$ 27.6	\$ 25.9
Capital assets	154.4	157.1
Total assets	182.0	183.0
Liabilities		
Current liabilities	23.7	22.9
Long-term liabilities	137.4	142.8
Total liabilities	161.1	165.7
Net Assets		
Investment in capital assets - Net of related debt	14.2	10.5
Restricted for debt service	0.6	0.7
Unrestricted	6.1	6.1
Total net assets	\$ 20.9	\$ 17.3

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 \$20.9 million at June 30, 2011 and \$17.3 million at June 30, 2010. Capital assets, net of related debt totaling \$14.2 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 \$0.6 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.

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.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2011 and 2010.

TABLE 2

	Governmental Activities	
	2011	2010
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.1	\$ 4.0
Operating grants	14.3	14.8
General revenue:		
Property taxes	21.0	24.1
State foundation allowance	53.6	51.4
Federal unrestricted revenue	2.2	2.2
Other	1.1	1.4
Total revenue	<u>96.3</u>	<u>97.9</u>
Functions/Program Expenses		
Instruction	47.0	51.9
Support services	28.8	29.9
Food service	2.3	2.4
Athletics	1.2	1.2
Community services	2.0	1.8
Interest on long-term debt	7.4	7.6
Depreciation (unallocated)	4.0	4.0
Total functions/program expenses	<u>92.7</u>	<u>98.8</u>
Increase (Decrease) in Net Assets	<u><u>\$ 3.6</u></u>	<u><u>\$ (0.9)</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 \$92.7 million. Certain activities were partially funded from those who benefited from the programs, \$4.1 million, or by other governments and organizations that subsidized certain programs with grants and contributions of \$14.3 million. We paid for the remaining "public benefit" portion of our governmental activities with \$21.0 million in taxes, \$53.6 million in state foundation allowance, \$2.2 million in federal stabilization and 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
	2011		2010	
	(in millions)		(in millions)	
Instruction	\$ 47.0	\$ 37.7	\$ 51.9	\$ 42.1
Support services	28.8	24.6	29.9	25.5
Athletics	1.2	0.7	1.2	0.8
All others	15.7	11.4	15.8	11.7
Total	<u>\$ 92.7</u>	<u>\$ 74.4</u>	<u>\$ 98.8</u>	<u>\$ 80.1</u>

The School District experienced an increase in net assets of \$3.6 million. The net assets invested in capital assets (net of related debt) increased by \$3.7 million. Net assets restricted for debt service and capital projects decreased by \$0.1 million. The unrestricted net asset balance remained the same at \$6.1 million. Additionally, long-term debt decreased by \$5.4 million, and the net capital assets balance decreased by \$2.7 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 \$16.2 million, which is an increase of \$0.8 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	\$ 13,591,832	\$ 1,879,306	\$ 15,471,138
Increase	<u>658,824</u>	<u>108,156</u>	<u>766,980</u>
Fund balance - End of year	<u>\$ 14,250,656</u>	<u>\$ 1,987,462</u>	<u>\$ 16,238,118</u>

In the General Fund, our principal operating fund, the fund balance increased by \$0.7 million from 2010. Revenue and other financing sources increased by \$0.6 million from 2010, while expenditures decreased by \$5.0 million. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes.

The other nonmajor funds increased slightly by \$0.1 million during the year ended June 30, 2011.

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.

A budget is a fluid document. Therefore, as expected, there were revisions made to the 2010-2011 General Fund budget. The addition of federal funds being provided by the American Recovery and Reinvestment Act and Educations Job Funds generated revenue and expenditures. Revisions to the expenditures were due to adjustments based on more accurate information.

There were three areas of significant variance between the final budget amounts and actual, based on dollar amount and percentage. Expenditures were less than budgeted for added needs, operations and maintenance, and technology services by \$0.8 million, \$0.3 million and \$0.2 million, respectively. These variances relate to technology advancement purchases approved by the Board which were not made during the 2010-2011 fiscal year as expected. No other areas of significance were noted.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the School District had \$154.4 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 \$2.7 million or 1.7 percent, from last year.

	2011	2010
Land	\$ 13,421,804	\$ 13,421,804
Buildings and building improvements	195,683,377	195,581,339
Buses and other vehicles	4,039,660	4,545,762
Furniture and equipment	9,756,003	9,598,915
Subtotal	222,900,844	223,147,820
Accumulated depreciation	68,470,794	66,018,425
Net capital assets	<u>\$ 154,430,050</u>	<u>\$ 157,129,395</u>

The decrease of \$2.7 million in the fiscal year 2011 (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 \$123.0 million in bonds outstanding versus \$131.9 million in the previous year - a change of 6.8 percent. Those bonds consisted of the following:

	2011	2010
General obligation bonds	<u>\$ 122,960,000</u>	<u>\$ 131,900,000</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 \$123.0 million is below the \$257.0 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.

Lake Orion Community Schools

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2012 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, 2012 budget was adopted in June 2011, based on an estimate of property tax revenue, state aid, and grant funding. State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since the School District's revenue is primarily dependent on state aid from the School Aid Fund and local property taxes, the actual revenue received by the School District depends on the 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 2012 fiscal year is 10 percent of the February 2011 and 90 percent of the September 2011 student counts. The 2011-2012 budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. Based on early enrollment data at the start of the 2011-2012 school year, we anticipate that the fall student count will be in line with the estimates used to create the 2011-2012 budget.

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 2011-2012. 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 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 2011-2012, 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, 2011

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 14,906,467
Receivables (Note 4)	11,668,950
Other assets	262,459
Restricted assets (Notes 1 and 3)	761,830
Capital assets - Net (Note 5)	<u>154,430,050</u>
Total assets	182,029,756
Liabilities	
Accounts payable	467,627
Accrued payroll and other liabilities	11,461,747
Deferred revenue (Note 4)	381,422
Long-term liabilities (Note 7):	
Due within one year	11,449,412
Due in more than one year	<u>137,360,276</u>
Total liabilities	<u>161,120,484</u>
Net Assets	
Investment in capital assets - Net of related debt	14,201,719
Restricted for debt service	594,527
Unrestricted	<u>6,113,026</u>
Total net assets	<u><u>\$ 20,909,272</u></u>

Lake Orion Community Schools

Statement of Activities Year Ended June 30, 2011

	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 47,022,517	\$ -	\$ 9,367,984	\$ (37,654,533)
Support services	28,794,414	209,676	4,014,850	(24,569,888)
Food services	2,263,168	1,580,837	892,505	210,174
Athletics	1,168,277	446,506	-	(721,771)
Community services	1,985,952	1,814,328	-	(171,624)
Interest on long-term debt	7,419,194	-	-	(7,419,194)
Depreciation (unallocated)	4,024,524	-	-	(4,024,524)
Total primary government - Governmental activities	<u>\$ 92,678,046</u>	<u>\$ 4,051,347</u>	<u>\$ 14,275,339</u>	(74,351,360)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				8,070,990
Property taxes - Levied for debt services				12,830,820
Property taxes - Delinquent				122,441
State aid not restricted to specific purposes				53,625,156
Federal unrestricted revenue				2,202,789
Interest and investment earnings				29,168
Other				<u>1,057,772</u>
			Total general revenue	<u>77,939,136</u>
			Change in Net Assets	3,587,776
			Net Assets - Beginning of year	<u>17,321,496</u>
			Net Assets - End of year	<u>\$ 20,909,272</u>

Lake Orion Community Schools

Governmental Funds Balance Sheet June 30, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 13,442,663	\$ 1,463,804	\$ 14,906,467
Receivables (Note 4):			
Accounts receivable	96,923	255	97,178
Due from other governmental units	11,559,901	11,871	11,571,772
Due from other funds (Note 6)	205,091	117	205,208
Other assets	226,941	35,518	262,459
Restricted assets (Note 3)	-	761,830	761,830
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 25,531,519</u>	<u>\$ 2,273,395</u>	<u>\$ 27,804,914</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 440,462	\$ 32,468	\$ 472,930
Accrued payroll and other liabilities	10,512,539	-	10,512,539
Due to other funds (Note 6)	117	199,788	199,905
Deferred revenue (Note 4)	327,745	53,677	381,422
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	11,280,863	285,933	11,566,796
Fund Balances			
Nonspendable - Inventories and prepaid costs	226,941	35,518	262,459
Restricted:			
Debt Service	-	594,527	594,527
Capital Projects	-	164,145	164,145
Food Service	-	716,010	716,010
Committed - Community Services	-	477,262	477,262
Assigned:			
Repairs, equipment, and capital expenditures	1,792,600	-	1,792,600
Long-term obligations - Compensated absences and self insurance	2,466,514	-	2,466,514
2011-2012 budgeted deficit	4,411,844	-	4,411,844
Unassigned - General Fund	5,352,757	-	5,352,757
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	14,250,656	1,987,462	16,238,118
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 25,531,519</u>	<u>\$ 2,273,395</u>	<u>\$ 27,804,914</u>

Lake Orion Community Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2011

Fund Balances - Total governmental funds \$ 16,238,118

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	\$ 222,900,844	
Accumulated depreciation	<u>(68,470,794)</u>	154,430,050

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	(123,124,887)	
Capital lease obligations	(224,798)	
Compensated absences	(2,161,514)	
School Bond Loan Fund	(20,221,758)	
School Loan Revolving Fund	(2,771,731)	
Self-insurance	<u>(305,000)</u>	(148,809,688)

Accrued interest payable is not included as a liability in governmental funds		<u>(949,208)</u>
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Net Assets - Governmental activities **\$ 20,909,272**

Lake Orion Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 9,857,560	\$ 16,280,282	\$ 26,137,842
State sources	58,619,130	99,312	58,718,442
Federal sources	5,595,499	793,193	6,388,692
Medicaid and ISD sources	5,151,967	-	5,151,967
Total revenue	79,224,156	17,172,787	96,396,943
Expenditures			
Current:			
Instruction	47,232,174	-	47,232,174
Support services	28,554,455	-	28,554,455
Food services	-	2,239,036	2,239,036
Athletics	1,163,781	-	1,163,781
Community services	351,169	1,631,843	1,983,012
Debt service:			
Principal	-	8,940,000	8,940,000
Interest	-	7,317,863	7,317,863
Other	-	97,568	97,568
Capital outlay	1,395,553	145,147	1,540,700
Total expenditures	78,697,132	20,371,457	99,068,589
Excess of Revenue Over (Under) Expenditures	527,024	(3,198,670)	(2,671,646)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	31,800	-	31,800
Transfers in (Note 6)	100,000	-	100,000
Transfers out (Note 6)	-	(100,000)	(100,000)
School Bond Loan Fund debt issued	-	3,406,826	3,406,826
Total other financing sources	131,800	3,306,826	3,438,626
Net Change in Fund Balances	658,824	108,156	766,980
Fund Balances - Beginning of year	13,591,832	1,879,306	15,471,138
Fund Balances - End of year	<u>\$ 14,250,656</u>	<u>\$ 1,987,462</u>	<u>\$ 16,238,118</u>

Lake Orion Community Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

Net Change in Fund Balances - Total governmental funds \$ 766,980

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	\$ (4,024,524)	
Capitalized capital outlay	<u>1,332,283</u>	(2,692,241)
The net effect of the sale of transactions involving capital assets that decreased net assets including disposals		(7,104)
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		(3,406,826)
Issuance of capital lease obligations		(313,837)
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 and capital lease obligations is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		9,029,039
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(129,912)
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 paid out than earned		<u>468,913</u>

Change in Net Assets of Governmental Activities **\$ 3,587,776**

Lake Orion Community Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2011

	Student Activities <u>Agency Fund</u>
Assets - Cash and investments	<u>\$ 763,468</u>
Liabilities	
Due to other funds	\$ 5,303
Due to student and other groups	<u>758,165</u>
Total liabilities	<u>\$ 763,468</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

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.

Note 1 - 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, and 2006 Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the 2002, 2005, and 2006 bond issues or bond refundings, respectively.

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.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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 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.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Fund Balance - 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 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The School District implemented Statement No. 54 during the year.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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

Accounting Change - Effective July 1, 2010, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 54. In addition to the changes to fund balance discussed above, the School District changed its presentation of the Athletics activity in the governmental funds. Previously, the Athletics function was reported as a special revenue fund. With the adoption of GASB 54, the activity no longer met the criteria to be classified as a special revenue fund and the activity is now reported in the General Fund. The Athletics Fund did not have a fund balance as of June 30, 2010.

Upcoming Accounting Pronouncement - 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.

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.

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

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

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

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

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$17,658,815 had \$17,115,599 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.

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, 2011

Note 4 - Receivables

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
	<u> </u>	<u> </u>	<u> </u>
Receivables:			
Accounts	\$ 96,923	\$ 255	\$ 97,178
Intergovernmental	<u>11,559,901</u>	<u>11,871</u>	<u>11,571,772</u>
Net receivables	<u>\$ 11,656,824</u>	<u>\$ 12,126</u>	<u>\$ 11,668,950</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 unavailable and unearned as follows:

	<u>Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 381,422</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets

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

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets not being depreciated -				
Land	\$ 13,421,804	\$ -	\$ -	\$ 13,421,804
Capital assets being depreciated:				
Building and building improvements	195,581,339	102,038	-	195,683,377
Furniture and equipment	9,598,915	924,309	767,221	9,756,003
Buses and other vehicles	4,545,762	305,936	812,038	4,039,660
Subtotal	209,726,016	1,332,283	1,579,259	209,479,040
Accumulated depreciation:				
Building and building improvements	53,844,268	3,455,471	-	57,299,739
Furniture and equipment	8,678,633	332,329	760,117	8,250,845
Buses and other vehicles	3,495,524	236,724	812,038	2,920,210
Subtotal	66,018,425	4,024,524	1,572,155	68,470,794
Net capital assets being depreciated	143,707,591	(2,692,241)	7,104	141,008,246
Net governmental capital assets	<u>\$ 157,129,395</u>	<u>\$ (2,692,241)</u>	<u>\$ 7,104</u>	<u>\$ 154,430,050</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			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Fund	
General Fund	\$ -	\$ 199,788	\$ 5,303	\$ 205,091
Nonmajor governmental funds	117	-	-	117
Total	<u>\$ 117</u>	<u>\$ 199,788</u>	<u>\$ 5,303</u>	<u>\$ 205,208</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

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

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

Interfund Transfers

	Transfer Out - Nonmajor Governmental Funds
	<u> </u>
Transfer in - General Fund	<u>\$ 100,000</u>

The transfer represents indirect costs reimbursed to the General Fund from 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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:					
Bonds	\$ 131,900,000	\$ -	\$ 8,940,000	\$ 122,960,000	\$ 9,160,000
Less deferred amounts:					
Bond premium	5,226,100	-	385,476	4,840,624	385,476
Bond issuance costs	(770,518)	-	(54,981)	(715,537)	(54,981)
Deferred charges from refunding bonds	<u>(4,262,114)</u>	<u>-</u>	<u>(301,914)</u>	<u>(3,960,200)</u>	<u>(301,914)</u>
Total bonds payable	132,093,468	-	8,968,581	123,124,887	9,188,581
Capital lease obligations	-	313,837	89,039	224,798	99,317
Other obligations	<u>22,522,090</u>	<u>4,726,219</u>	<u>1,788,306</u>	<u>25,460,003</u>	<u>2,161,514</u>
Total governmental activities	<u>\$ 154,615,558</u>	<u>\$ 5,040,056</u>	<u>\$ 10,845,926</u>	<u>\$ 148,809,688</u>	<u>\$ 11,449,412</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

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
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	9,995,000	4,029,025	14,024,025
2017-2021	47,975,000	13,172,033	61,147,033
2022-2026	26,275,000	3,383,423	29,658,423
2027	845,000	36,968	881,968
Total	<u>\$ 122,960,000</u>	<u>\$ 41,376,459</u>	<u>\$ 164,336,459</u>

The School District has 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
2012	\$ 109,458
2013	109,458
2014	28,821
Total	247,737
Less amount representing interest	22,939
Present value of net minimum lease payments	<u>\$ 224,798</u>
Current obligation	<u>\$ 99,317</u>

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

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 4.60 to 5.00 percent	\$ 29,690,000
\$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 to 5.00 percent	47,995,000
\$45,275,000 - 2006 refunding bonds due in annual installments of \$840,000 to \$5,940,000 through May 2027; interest at 4.0 to 5.00 percent	<u>45,275,000</u>
Total bonded debt	<u>\$ 122,960,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 2,161,514
School Bond Loan Fund	20,221,758
School Loan Revolving Fund	2,771,731
Workers' Compensation	<u>305,000</u>
Total	<u>\$ 25,460,003</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 5.000 to 5.375 percent through June 30, 2011, has been assessed for the year ended June 30, 2011. 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

Notes to Financial Statements June 30, 2011

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 3.00000 percent to 4.80262 percent through June 30, 2011 has been assessed for the year ended June 30, 2011. 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, 2011, \$96,715,000 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. 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.

Lake Orion Community Schools

Notes to Financial Statements June 30, 2011

Note 8 - Risk Management (Continued)

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:

	2011	2010
Estimated liability - Beginning of year	\$ 135,000	\$ 220,000
Estimated claims incurred - Including changes in estimates	380,059	1,822
Claim payments	<u>210,059</u>	<u>86,822</u>
Estimated liability - End of year	<u>\$ 305,000</u>	<u>\$ 135,000</u>

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), 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.

**Note 9 - Defined Benefit Pension Plan and Postemployment Benefits
(Continued)**

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 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. The employer contribution rate for pension plus plan members was 10.66 for the period from October 1, 2010 through June 30, 2011. 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, 2011, 2010, and 2009 were \$5,179,065, \$4,727,005, and \$4,484,620, 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 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 31, 2010, and 8.50 percent for the period from November 1, 2010 through June 30, 2011. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 were \$3,551,691, \$3,208,245, and \$3,076,988, respectively.

Required Supplemental Information

Lake Orion Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 9,957,580	\$ 9,831,681	\$ 9,889,360	\$ 57,679
State sources	58,293,589	58,657,142	58,619,130	(38,012)
Federal sources	3,299,197	5,892,326	5,595,499	(296,827)
Medicaid and ISD sources	4,451,910	5,254,840	5,151,967	(102,873)
Other revenue	100,000	100,000	100,000	-
Total revenue	76,102,276	79,735,989	79,355,956	(380,033)
Expenditures				
Current:				
Instruction:				
Basic programs	36,367,072	36,959,006	36,903,505	(55,501)
Added needs	11,470,817	11,532,385	10,750,258	(782,127)
Support services:				
Pupil support services	6,187,126	5,935,551	6,004,478	68,927
Instructional staff support services:				
Instruction improvement	434,594	719,966	669,199	(50,767)
Educational media services	1,253,671	1,103,522	1,076,781	(26,741)
Technology assisted instruction	391,858	472,558	465,238	(7,320)
Instructional staff supervision	871,163	778,892	746,940	(31,952)
General administration	913,698	1,081,917	1,018,578	(63,339)
School administration	4,434,348	4,401,348	4,351,873	(49,475)
Business services	1,255,570	1,256,467	1,270,223	13,756
Operation and maintenance	8,129,725	7,968,775	7,680,433	(288,342)
Transportation services	4,121,010	4,499,279	4,456,262	(43,017)
Human resources	612,049	563,167	559,800	(3,367)
Technology services	1,201,300	1,419,781	1,215,345	(204,436)
Athletics	1,161,637	1,206,768	1,177,050	(29,718)
Community services	369,962	366,939	351,169	(15,770)
Total expenditures	79,175,600	80,266,321	78,697,132	(1,569,189)
Net Change in Fund Balance	(3,073,324)	(530,332)	658,824	1,189,156
Fund Balance - July 1, 2010	13,591,832	13,591,832	13,591,832	-
Fund Balance - June 30, 2011	<u>\$ 10,518,508</u>	<u>\$ 13,061,500</u>	<u>\$ 14,250,656</u>	<u>\$ 1,189,156</u>

Other Supplemental Information

Lake Orion Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Special Revenue Funds		Debt Service Funds			Capital Projects Fund	Total
	Food Service	Community	2002 Debt	2005 Debt	2006 Debt	2002 Capital Projects Fund	
		Services					
Assets							
Cash and investments	\$ 902,800	\$ 561,004	\$ -	\$ -	\$ -	\$ -	\$ 1,463,804
Accounts receivable	-	255	-	-	-	-	255
Due from other governmental units	11,579	-	108	147	37	-	11,871
Due from other funds	-	-	-	-	117	-	117
Other assets	30,445	5,073	-	-	-	-	35,518
Restricted assets	-	-	229,342	294,892	73,451	164,145	761,830
Total assets	<u>\$ 944,824</u>	<u>\$ 566,332</u>	<u>\$ 229,450</u>	<u>\$ 295,039</u>	<u>\$ 73,605</u>	<u>\$ 164,145</u>	<u>\$ 2,273,395</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 18,843	\$ 10,058	\$ 1,338	\$ 1,796	\$ 433	\$ -	\$ 32,468
Due to other funds	125,849	73,939	-	-	-	-	199,788
Deferred revenue	53,677	-	-	-	-	-	53,677
Total liabilities	198,369	83,997	1,338	1,796	433	-	285,933
Fund Balances							
Non-spendable - Inventories	30,445	5,073	-	-	-	-	35,518
Restricted:							
Debt Service	-	-	228,112	293,243	73,172	-	594,527
Capital Projects	-	-	-	-	-	164,145	164,145
Food Service	716,010	-	-	-	-	-	716,010
Committed - Community services	-	477,262	-	-	-	-	477,262
Total fund balances	<u>746,455</u>	<u>482,335</u>	<u>228,112</u>	<u>293,243</u>	<u>73,172</u>	<u>164,145</u>	<u>1,987,462</u>
Total liabilities and fund balances	<u>\$ 944,824</u>	<u>\$ 566,332</u>	<u>\$ 229,450</u>	<u>\$ 295,039</u>	<u>\$ 73,605</u>	<u>\$ 164,145</u>	<u>\$ 2,273,395</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, 2011

	Special Revenue Funds		Debt Service Funds			Capital Projects Fund	Total
	Food Service	Community Services	2002 Debt	2005 Debt	2006 Debt	2002 Capital Projects Fund	
Revenue							
Local sources	\$ 1,582,074	\$ 1,815,051	\$ 4,937,408	\$ 6,363,402	\$ 1,582,347	\$ -	\$ 16,280,282
State sources	99,312	-	-	-	-	-	99,312
Federal sources	793,193	-	-	-	-	-	793,193
Total revenue	2,474,579	1,815,051	4,937,408	6,363,402	1,582,347	-	17,172,787
Expenditures							
Current:							
Food services	2,239,036	-	-	-	-	-	2,239,036
Community services	-	1,631,843	-	-	-	-	1,631,843
Debt service:							
Principal	-	-	4,045,000	4,895,000	-	-	8,940,000
Interest	-	-	2,014,968	3,024,350	2,278,545	-	7,317,863
Other	-	-	34,698	49,374	13,176	320	97,568
Capital outlay	137,304	7,843	-	-	-	-	145,147
Total expenditures	2,376,340	1,639,686	6,094,666	7,968,724	2,291,721	320	20,371,457
Excess of Revenue Over (Under) Expenditures	98,239	175,365	(1,157,258)	(1,605,322)	(709,374)	(320)	(3,198,670)
Other Financing Sources (Uses)							
Transfers out	(100,000)	-	-	-	-	-	(100,000)
School bond loan funds debt issued	-	-	1,322,716	1,718,228	365,882	-	3,406,826
Total other financing (uses) sources	(100,000)	-	1,322,716	1,718,228	365,882	-	3,306,826
Net Change in Fund Balances	(1,761)	175,365	165,458	112,906	(343,492)	(320)	108,156
Fund Balances - Beginning of year	748,216	306,970	62,654	180,337	416,664	164,465	1,879,306
Fund Balances - End of year	<u>\$ 746,455</u>	<u>\$ 482,335</u>	<u>\$ 228,112</u>	<u>\$ 293,243</u>	<u>\$ 73,172</u>	<u>\$ 164,145</u>	<u>\$ 1,987,462</u>

Lake Orion Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2011

June 30	2002 Issue		2005 Refunding	
	Principal	Interest	Principal	Interest
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	\$ 29,690,000	\$ 5,787,160	\$ 47,995,000	\$ 12,231,390
Principal payments due	May 1		May 1	
Interest payments due	May/November		May/November	
Interest rate	4.60% to 5.00%		3.80% to 5.00%	
Original issue	<u>\$58,035,000</u>		<u>\$ 71,500,000</u>	

Lake Orion Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness (Continued) Year Ended June 30, 2011

June 30	2006 Refunding		Total Principal	Total Interest
	Principal	Interest		
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	<u>\$ 45,275,000</u>	<u>\$ 23,357,909</u>	<u>\$ 122,960,000</u>	<u>\$ 41,376,459</u>
Principal payments due	May 1			
Interest payments due	May/November			
Interest rate	4.00% to 5.00%			
Original issue	<u>\$ 45,275,000</u>			