

# **Lapeer Community Schools of Lapeer County**

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

# Lapeer Community Schools of Lapeer County

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## Independent Auditor's Report

To the Board of Education  
Lapeer Community Schools  
of Lapeer County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lapeer Community Schools of Lapeer County (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 Lapeer Community Schools of Lapeer County's 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, each major fund, and the aggregate remaining fund information of Lapeer Community Schools of Lapeer County as of June 30, 2011 and the respective changes in financial position 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 1. As a result of this implementation, the Athletic Fund, previously classified as a special revenue fund, is now reported as a 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 Statement No. 54.

The management's discussion and analysis and budgetary comparison schedules, 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  
Lapeer Community Schools  
of Lapeer County

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lapeer Community Schools of Lapeer County's 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 October 4, 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*

October 4, 2011

# **Lapeer Community Schools of Lapeer County**

## **Management's Discussion and Analysis**

This section of the 2011 annual financial report of Lapeer Community Schools of Lapeer County (the "School District") 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 Lapeer Community Schools of Lapeer County financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Capital Projects 2007 Bond Issue - with all other funds presented in one column as nonmajor funds. The remaining statements, the statements of fiduciary net assets and changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report includes the following:

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 the General 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.

# Lapeer Community Schools of Lapeer County

## Management's Discussion and Analysis (Continued)

These two statements report Lapeer Community Schools of Lapeer County'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. 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, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Cafeteria Fund would be an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as the Sinking Fund 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.

# Lapeer Community Schools of Lapeer County

## 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 and its private purpose trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. 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, 2011 and 2010:

	Governmental Activities	
	June 30	
	2011	2010
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 16.8	\$ 28.7
Capital assets	74.6	70.4
Total assets	91.4	99.1
<b>Liabilities</b>		
Current liabilities	9.1	12.4
Long-term liabilities	56.5	57.8
Total liabilities	65.6	70.2
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	20.6	18.3
Restricted	1.6	5.9
Unrestricted	3.6	4.7
Total net assets	<u>\$ 25.8</u>	<u>\$ 28.9</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$25.8 million at June 30, 2011 and \$28.9 million at June 30, 2010. Capital assets, net of related debt totaling \$20.6 million at June 30, 2011 and \$18.3 million at June 30, 2010 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. Restricted net assets 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.

# Lapeer Community Schools of Lapeer County

## Management's Discussion and Analysis (Continued)

The \$3.6 million at June 30, 2011 and \$4.7 million at June 30, 2010 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 2011 and 2010.

TABLE 2

	Governmental Activities	
	2011	2010
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 1.2	\$ 1.3
Operating grants and contributions	7.4	7.2
General revenue:		
Property taxes	10.1	10.2
State foundation allowance	36.7	36.3
Federal stabilization and educational jobs funds	2.1	1.9
Other	0.7	0.7
Total revenue	58.2	57.6
<b>Functions/Program Expenses</b>		
Instruction	35.7	33.1
Support services	17.3	19.0
Athletics	1.2	1.2
Food services	2.5	2.6
Community services	0.3	0.3
Other	0.1	0.1
Interest on long-term debt	2.7	2.7
Depreciation expense (unallocated)	1.5	1.4
Total functions/program expenses	61.3	60.4
<b>Decrease in Net Assets</b>	<b>\$ (3.1)</b>	<b>\$ (2.8)</b>



# **Lapeer Community Schools of Lapeer County**

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

As reported in the statement of activities, the cost of all of our governmental activities was \$61.3 million in 2011 and \$60.4 million in 2010. Certain activities were partially funded from those who benefited from the programs (\$1.2 million in 2011 and \$1.3 million in 2010) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7.4 million in 2011 and \$7.2 million in 2010). We paid for the remaining "public benefit" portion of our governmental activities with \$10.1 million in taxes in 2011 and \$10.2 million in taxes in 2010, \$38.8 million in unrestricted state and federal aid in 2011 and \$38.2 million in 2010, and with our other revenue, i.e., interest and general entitlements.

The School District experienced a decrease in net assets of \$3.1 million in 2011 and a decrease of \$2.8 million in 2010. Key reasons for the change in net assets include an increase in liability due to an early retirement incentive and the use of a portion of the General Fund fund balance to fund operating expenditures.

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

### **The School District's Funds**

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.2 million, which is a decrease of \$8.6 million from last year.

In the General Fund, our principal operating fund, the fund balance decreased from \$6.8 million to \$5.4 million. The change is mainly due to the following:

- The loss of 170 students (\$1.2 million)
- Increase in healthcare, retirement, and utility costs of \$2.1 million
- The loss of revenue and increased benefit costs were partially offset by cost-cutting measures including employee concessions and staff reductions (\$2.5 million).

The General Fund fund balance is available to fund costs related to allowable school operating purposes. Portions of the General Fund's fund balance have been allocated for certain commitments.

# **Lapeer Community Schools of Lapeer County**

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

The School District maintains a fund to segregate the voter-approved Sinking Fund millage. The Capital Projects Sinking Fund began the year with a fund balance of \$0.9 million, and during the year, the School District completed construction projects and paid off outstanding liabilities of approximately \$0.4 million. The balance of this fund is available to fund specific capital projects allowed by state law and approved by the voters. The fund balance at June 30, 2011 for the Capital Projects Sinking Fund was approximately \$0.5 million.

During the year, the School District collected taxes authorized by the 2007 Capital Bond in the amount of approximately \$3.6 million. Bond principal and interest payments were made in the amount of \$1.0 million and \$2.7 million, respectively, during the fiscal year, and the fund balance at June 30, 2011 for the 2007 Debt Service Fund was approximately \$1.6 million. This amount is necessary for the payment of bond interest due in November 2011.

The School District also maintains the Capital Projects Sale of Facilities Fund resulting from the sale of School District facilities. The fund balance at the beginning of the year was approximately \$0.1 million. No projects were scheduled from this Capital Fund during the 2010-2011 school year.

### **General Fund Budgetary Highlights**

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

There were several revisions made to the 2010-2011 General Fund original budget as compared to the final budget adopted in June 2011. Budgeted revenue increased by \$1.6 million during the year, most of which was due to unanticipated federal Ed Jobs grant funds.

Budgeted total expenditures were increased during the year by approximately \$1.3 million primarily due to unanticipated retirement and healthcare cost increases, as well as significant mid-year energy price adjustments. Actual revenue and expenses were near budgeted amounts for the year.

# Lapeer Community Schools of Lapeer County

## Management's Discussion and Analysis (Continued)

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2011, the School District had \$74.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents an increase (including additions, disposals, and depreciation) of approximately \$4.2 million from last year.

	2011	2010
Land and land improvements	\$ 9,763,183	\$ 4,612,801
Construction in progress	117,308	42,659,806
Buildings and building improvements	78,450,934	37,882,475
Buses and other vehicles	4,391,929	4,289,745
Furniture and equipment	8,505,077	6,210,559
Total capital assets	101,228,431	95,655,386
Less accumulated depreciation	26,597,098	25,288,176
Net capital assets	<u>\$ 74,631,333</u>	<u>\$ 70,367,210</u>

This year's additions of \$48.4 million include the placing in service of \$42.6 million of prior years' construction in progress for a net increase of \$5.8 million. Of the \$48.4 million, \$40.8 million is for building renovations and bus purchase, \$5.1 million is for land improvements, and \$2.5 million for additional furniture and equipment. The increase in assets for the year was funded from the General Fund (\$0.2 million), Capital Projects Sinking Fund (\$0.4 million), sale of Facilities Fund (\$1.1 million), and the 2007 Bond Issue Fund (\$46.7 million).

#### *Debt*

The School District has one bond outstanding for \$53.2 million whereby repayment is funded by the millage passed for the 2007 bond issue. During the year, taxes were collected in the amount of approximately \$3.6 million and principal and interest payments were made totaling approximately \$3.6 million. In the future, bond issue millage rates will be determined annually to ensure that the School District accumulates sufficient resources to pay annual bond principal and interest payments. Other obligations include accrued vacation pay, sick leave, early retirement incentive, risk liability, installment debt, and the Durant bond, which is funded by the State of Michigan. We present more detailed information about our long-term liabilities in the notes to the financial statements.

# **Lapeer Community Schools of Lapeer County**

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

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

The School District's Board of Education members and administration begin reviewing revenue and expenditure projections for the 2011-2012 fiscal year early in the 2011 fiscal year for the budget to be adopted July 1. The budget is developed to support programs and services designed to achieve the goals and objectives of the School District as outlined in the School District's strategic plan. Resources for funding the budget include current year revenue (85 percent from state aid and the foundation allowance) and existing fund balance. In anticipation of reduced state aid revenue and increased energy costs, the School District employed a budget reduction process that has reduced General Fund expenditures by approximately \$5.9 million. The School District also plans to utilize an additional \$2.7 million of fund balance during the 2011-2012 school year.

Expenditures for employee compensation and fringe benefits make up approximately 87 percent of the School District's budget. Significant increases in healthcare benefits have been somewhat mitigated by all employees agreeing to pay a portion of the premium or changing benefit plans to a less expensive plan. In addition, as a part of the School District budget reduction process, most School District employee groups have agreed to wage concessions to help minimize the budget reduction impact on the students and the community. Utility costs are contained to the extent possible by bulk purchasing, and the 2007 bond issue has helped to assist the School District in avoiding unplanned capital equipment expenditures.

# Lapeer Community Schools of Lapeer County

## Statement of Net Assets June 30, 2011

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 6,371,133
Receivables (Note 4)	7,499,216
Inventories	16,966
Prepaid costs and other assets	185,840
Restricted assets (Notes 1 and 3)	2,693,641
Capital assets - Net (Note 5)	<u>74,631,333</u>
Total assets	91,398,129
<b>Liabilities</b>	
Accounts payable	1,464,403
Accrued payroll-related liabilities	3,908,049
State aid anticipation note (Note 10)	3,190,858
Accrued interest	460,894
Deferred revenue (Note 4)	7,268
Long-term liabilities (Note 7):	
Due within one year	2,643,902
Due in more than one year	<u>53,903,892</u>
Total liabilities	<u>65,579,266</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	20,641,976
Restricted:	
Debt service	1,182,944
Capital projects	433,859
Unrestricted	<u>3,560,084</u>
Total net assets	<u><b>\$ 25,818,863</b></u>

# Lapeer Community Schools of Lapeer County

## Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 35,717,609	\$ -	\$ 6,028,239	\$ (29,689,370)
Support services	17,359,001	146,646	1,227,796	(15,984,559)
Athletics	1,238,803	241,645	-	(997,158)
Food services	2,517,958	773,430	142,733	(1,601,795)
Community services	295,429	35,631	-	(259,798)
Intergovernmental transfers	53,474	-	-	(53,474)
Interest	2,665,248	-	-	(2,665,248)
Depreciation expense (unallocated)	1,501,287	-	-	(1,501,287)
Total primary government	<u>\$ 61,348,809</u>	<u>\$ 1,197,352</u>	<u>\$ 7,398,768</u>	(52,752,689)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				6,430,527
Property taxes, levied for debt service				3,651,728
Property taxes, levied for capital projects				678
State aid not restricted to specific purposes				36,673,066
Federal stabilization and educational jobs funds				2,140,391
Interest and investment earnings				34,417
Gain on the sale of capital assets				5,000
Other				724,381
Total general revenue				<u>49,660,188</u>
<b>Change in Net Assets</b>				(3,092,501)
<b>Net Assets - Beginning of year</b>				<u>28,911,364</u>
<b>Net Assets - End of year</b>				<u><b>\$ 25,818,863</b></u>

# Lapeer Community Schools of Lapeer County

## Governmental Funds Balance Sheet June 30, 2011

	General Fund	Capital Projects 2007 Bond Issue Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 6,241,326	\$ -	\$ 129,807	\$ 6,371,133
Receivables (Note 4)	7,466,171	-	33,045	7,499,216
Due from other funds (Note 6)	30,129	-	-	30,129
Inventories	16,966	-	-	16,966
Prepaid costs and other assets	185,840	-	-	185,840
Restricted assets (Notes 1 and 3)	-	589,430	2,104,211	2,693,641
<b>Total assets</b>	<b>\$13,940,432</b>	<b>\$ 589,430</b>	<b>\$ 2,267,063</b>	<b>\$ 16,796,925</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,381,205	\$ 15,286	\$ 90,500	\$ 1,486,991
Accrued payroll-related liabilities	3,908,049	-	-	3,908,049
State aid anticipation note (Note 10)	3,190,858	-	-	3,190,858
Accrued interest (Note 10)	23,612	-	-	23,612
Due to other funds (Note 6)	-	-	7,541	7,541
Deferred revenue (Note 4)	7,268	-	-	7,268
<b>Total liabilities</b>	<b>8,510,992</b>	<b>15,286</b>	<b>98,041</b>	<b>8,624,319</b>
<b>Fund Balances</b>				
Nonspendable:				
Inventory	16,966	-	-	16,966
Prepaid assets	185,840	-	-	185,840
Restricted:				
Capital projects	-	574,144	484,284	1,058,428
Debt service	-	-	1,620,226	1,620,226
Food service	-	-	12,606	12,606
Committed - Capital projects	-	-	51,906	51,906
Assigned - Budgeted use of fund balance in subsequent year	2,741,300	-	-	2,741,300
Unassigned	2,485,334	-	-	2,485,334
<b>Total fund balances</b>	<b>5,429,440</b>	<b>574,144</b>	<b>2,169,022</b>	<b>8,172,606</b>
<b>Total liabilities and fund balances</b>	<b>\$13,940,432</b>	<b>\$ 589,430</b>	<b>\$ 2,267,063</b>	<b>\$ 16,796,925</b>

# Lapeer Community Schools of Lapeer County

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

**Fund Balance Reported in Governmental Funds** \$ 8,172,606

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 funds:

Cost of capital assets	\$ 101,228,431	
Accumulated depreciation	<u>(26,597,098)</u>	74,631,333

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable, including premium and bond issuance costs	(54,553,925)	
Compensated absences	(358,000)	
Early retirement incentive	(1,540,869)	
Risk liability	<u>(95,000)</u>	(56,547,794)

Accrued interest payable is not included as a liability in governmental funds	<u>(437,282)</u>
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**Net Assets of Governmental Activities** **\$ 25,818,863**



# Lapeer Community Schools of Lapeer County

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

	General Fund	Capital Projects 2007 Bond Issue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 7,545,748	\$ 9,575	\$ 4,430,812	\$ 11,986,135
State sources	39,995,560	-	228,168	40,223,728
Federal sources	4,307,727	-	1,602,246	5,909,973
Interdistrict sources	78,524	-	-	78,524
Total revenue	51,927,559	9,575	6,261,226	58,198,360
<b>Expenditures</b>				
Current:				
Instruction	34,021,576	-	-	34,021,576
Support services	17,484,163	-	-	17,484,163
Athletics	1,238,803	-	-	1,238,803
Food services	-	-	2,517,958	2,517,958
Community services	295,429	-	-	295,429
Debt service:				
Principal	-	-	1,049,067	1,049,067
Interest	-	-	2,668,948	2,668,948
Other	-	-	3,466	3,466
Capital outlay	228,476	6,859,000	404,009	7,491,485
Intergovernmental transfers	53,474	-	-	53,474
Total expenditures	53,321,921	6,859,000	6,643,448	66,824,369
<b>Excess of Revenue Under Expenditures</b>	(1,394,362)	(6,849,425)	(382,222)	(8,626,009)
<b>Other Financing Sources -</b>				
Proceeds from sale of capital assets	5,000	-	-	5,000
<b>Net Change in Fund Balances</b>	(1,389,362)	(6,849,425)	(382,222)	(8,621,009)
<b>Fund Balances - Beginning of year -</b>				
As restated	6,818,802	7,423,569	2,551,244	16,793,615
<b>Fund Balances - End of year</b>	<b>\$ 5,429,440</b>	<b>\$ 574,144</b>	<b>\$ 2,169,022</b>	<b>\$ 8,172,606</b>



# Lapeer Community Schools of Lapeer County

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## Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2011

	Private Purpose Trust	Student Activities Agency Fund
<b>Assets - Cash and investments</b>	\$ 26,813	<u>\$ 612,523</u>
<b>Liabilities</b>		
Due to student groups	-	\$ 589,935
Due to other funds (Note 6)	-	<u>22,588</u>
Total liabilities	-	<u>\$ 612,523</u>
<b>Net Assets - Restricted for endowments</b>	<u>\$ 26,813</u>	

# Lapeer Community Schools of Lapeer County

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## Fiduciary Fund Statement of Changes in Net Assets Year Ended June 30, 2011

	Private Purpose Trust Funds
<b>Additions - Revenue</b>	\$ 42
<b>Deductions - Scholarships and other expenses</b>	<u>1,148</u>
<b>Change in Net Assets</b>	(1,106)
<b>Net Assets - Beginning of year</b>	<u>27,919</u>
<b>Net Assets - End of year</b>	<u><u>\$ 26,813</u></u>

# Lapeer Community Schools of Lapeer County

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## Notes to Financial Statements June 30, 2011

### **Note I - Nature of Business and Significant Accounting Policies**

The accounting policies of Lapeer Community Schools of Lapeer County (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.

#### **Government-wide and Fund Financial Statements**

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

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

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

# Lapeer Community Schools of Lapeer County

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## Notes to Financial Statements June 30, 2011

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

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

# Lapeer Community Schools of Lapeer County

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## Notes to Financial Statements June 30, 2011

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

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 funds:

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

**Capital Projects 2007 Bond Issue Fund** - The Capital Projects 2007 Bond Issue Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

**Special Revenue Fund** - 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 Fund includes the Cafeteria Fund. Any operating deficit generated by this fund is the responsibility of the General Fund. Revenue sources for the Cafeteria Fund consist of sales to customers, as well as dedicated state and federal grants.

**Debt Service Funds** - The 2007 Debt Service Fund is used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures of the 2007 bond issue. The Durant 1998 Debt Service Fund is used to record the principal and interest payments associated with this bond. These payments are funded by the State of Michigan via a specific appropriation, which is recorded as revenue in the fund.

**Capital Projects Sinking Fund** - The Capital Projects Sinking Fund reports capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the provisions of Section 1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No.01-95.

**Capital Projects Sale of Facilities Fund** - The Capital Projects Sale of Facilities Fund reports proceeds received from the sale of the School District buildings or other revenue and the disbursement of invoices specifically designated for School District renovation of student facilities. The fund operates until the purpose for which it was created is accomplished.

**Fiduciary Funds** - The School District manages certain funds in a fiduciary capacity. These funds are allocated for in private-purpose trust funds or in an Agency Fund.

**Agency Fund** - The Agency Fund is used to record the transactions of student and

# Lapeer Community Schools of Lapeer County

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## Notes to Financial Statements June 30, 2011

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

community 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. Pooled investment income from the Special Revenue Funds is generally allocated to each fund using a weighted average of balance for the principal.

**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 accounts 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 December 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 consumed. 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 Capital Projects Funds 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.



# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

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

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

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

Buildings and building additions	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	3 to 10 years

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

A liability for early termination benefits is reported in the government-wide statements at the discounted present value of the expected future benefit payments using a discount rate of 5 percent. The early termination benefits consist of early retirement incentive cash payments provided to 26 employees over a four-year period effective June 30, 2009, 28 employees over a two-year period effective June 30, 2010, and 27 employees over a two-year period effective June 30, 2011. The cost of the obligation is reported in long-term debt.

**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, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period.

# Lapeer Community Schools of Lapeer County

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## Notes to Financial Statements June 30, 2011

### **Note 1 - Nature of Business and 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 March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions* (GASB Statement No. 54). 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 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 GASB Statement No. 54 during the year.

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 Board of Education
- Unassigned - Amounts that are remaining after applying the above definitions and are available for any purpose

The Board of Education has set a target fund balance as 10 percent of expenditures in the General Fund. This is deemed to be the prudent amount to maintain the School District's ability to meet obligations as they come due throughout the year.

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

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

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

**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 Statement No. 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 had a fund balance of \$5,857 at June 30, 2010. The General Fund fund balance has been restated at \$6,818,802 to include the fund balance of the Athletics Fund as of July 1, 2010.

### Note 2 - Stewardship, Compliance, and Accountability

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

The budget document presents information by fund and function. 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. 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. For budgeting purposes, capital outlay is classified within the related function. Capital outlay is segregated on the statement of revenue, expenditures, and changes in fund balances.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**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, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Instruction - Basic programs	\$ 26,651,106	\$ 27,197,916

# Lapeer Community Schools of Lapeer County

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## Notes to Financial Statements June 30, 2011

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

**Capital Projects Fund Compliance** - The Capital Projects 2007 Bond Issue Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

The 2007 general obligation bonds were considered complete on June 30, 2011 and the cumulative expenditures recognized for the construction period were \$57,164,344.

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

### Note 3 - Deposits and Investments

State statutes 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 also allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

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

The investment policy adopted by the board in accordance with state statutes has authorized investment in 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 \$1,976,340, included \$1,726,340 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

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

**Custodial Credit Risk of Investments** - Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The School District's policy for custodial credit risk states 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. At June 30, 2011, the School District did 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 investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

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

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

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	<u>\$ 8,282,501</u>	N/A	AI/PI/FI	Not required

**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. The School District's investments consist of all bank investment pool accounts, which are considered to be low-risk investments.

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

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

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

### Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the School District's individual major and nonmajor funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Governmental Funds	Total
Receivables:			
Taxes	\$ 94,527	\$ 299	\$ 94,826
Accounts receivable	42,799	10,599	53,398
Intergovernmental	7,328,845	22,147	7,350,992
Total receivables	<u>\$ 7,466,171</u>	<u>\$ 33,045</u>	<u>\$ 7,499,216</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, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Childcare revenue received but not earned	<u>\$ -</u>	<u>\$ 7,268</u>

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2010	Additions and Adjustments	Disposals and Adjustments	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 1,046,763	\$ -	\$ -	\$ 1,046,763
Construction in progress	42,659,806	84,759	42,627,257	117,308
Capital assets being depreciated:				
Land improvements	3,566,038	5,150,382	-	8,716,420
Building and building improvements	37,882,475	40,568,459	-	78,450,934
Furniture and equipment	6,210,559	2,486,883	192,365	8,505,077
Buses and other vehicles	4,289,745	102,184	-	4,391,929
Subtotal	51,948,817	48,307,908	192,365	100,064,360
Accumulated depreciation:				
Land improvements	1,302,396	133,482	-	1,435,878
Buildings and improvements	18,595,733	739,484	-	19,335,217
Furniture and equipment	2,243,665	320,876	192,365	2,372,176
Buses and other vehicles	3,146,382	307,445	-	3,453,827
Subtotal	25,288,176	1,501,287	192,365	26,597,098
Net capital assets being depreciated	26,660,641	46,806,621	-	73,467,262
Net capital assets	\$ 70,367,210	\$ 46,891,380	\$ 42,627,257	\$ 74,631,333

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

**Construction Commitments** - The School District has one active 2007 bond issue construction project at year end. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Seaton renovations	\$ 117,309	\$ 4,950

### Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Fund Due To	Nonmajor Governmental Funds	Fiduciary Funds	Total
General Fund	\$ 7,541	\$ 22,588	\$ 30,129

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

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

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

### Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes are general obligations of the School District. Other long-term obligations include compensated absences, early retirement incentives, and certain risk liabilities.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 54,252,811	\$ -	\$ 1,049,067	\$ 53,203,744	\$ 1,424,897
Bond premium	1,745,283	-	65,860	1,679,423	65,860
Bond issuance cost	(342,154)	-	(12,912)	(329,242)	12,912
Total bonds payable	55,655,940	-	1,102,015	54,553,925	1,503,669
Other obligations	2,149,073	1,751,991	1,907,195	1,993,869	1,140,233
Total governmental activities	\$ 57,805,013	\$ 1,751,991	\$ 3,009,210	\$ 56,547,794	\$ 2,643,902

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2012	\$ 1,424,897	\$ 2,720,744	\$ 4,145,641
2013	1,253,847	2,578,364	3,832,211
2014	1,245,000	2,527,800	3,772,800
2015	1,305,000	2,478,000	3,783,000
2016	1,375,000	2,412,750	3,787,750
2017-2021	8,000,000	10,957,500	18,957,500
2022-2026	10,025,000	8,735,500	18,760,500
2027-2031	12,425,000	5,918,750	18,343,750
2032-2036	13,425,000	2,701,250	16,126,250
2037	2,725,000	136,250	2,861,250
Total	\$ 53,203,744	\$ 41,166,908	\$ 94,370,652



# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

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

#### Governmental Activities

General obligation bonds consist of the following:

\$55,205,000 - 2007 general obligation bonds due in annual installments of \$1,145,000 to \$2,725,000 through May 2037; interest at 4.00 percent to 5.25 percent	\$ 52,870,000
\$803,366 - Durant bonds due in annual installments of \$53,847 to \$279,897 through May 15, 2013; interest at 4.76 percent	<u>333,744</u>
Total bonded debt	<u>\$ 53,203,744</u>

**Durant Non-Plaintiff Bond** - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond with an original issue amount of \$803,366. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 358,000
Early retirement incentives	1,540,869
Risk liability	<u>95,000</u>
Total	<u>\$ 1,993,869</u>

### 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 medical benefits, certain property loss, and errors and omissions claims and participates in the MAISL shared-risk pool for claims relating to property loss and torts; the School District is self-insured for dental and vision. The School District is uninsured up to a \$300,000 specific occurrence retention limit for employee injuries (workers' compensation) claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

### Note 8 - Risk Management (Continued)

The School District estimates the liability for employee injury claims and for dental and vision benefits 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	\$ 317,000	\$ 355,000
Estimated claims incurred - Including changes in estimates	870,895	985,890
Claim payments	<u>(1,092,895)</u>	<u>(1,023,890)</u>
Estimated liability - End of year	<u>\$ 95,000</u>	<u>\$ 317,000</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.

**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 percent 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 percent 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. The School District's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$3,569,140, \$3,144,080, and \$3,284,228, respectively.

# Lapeer Community Schools of Lapeer County

## Notes to Financial Statements June 30, 2011

### **Note 9 - 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. 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 \$2,437,786, \$2,129,528, and \$2,263,557, respectively.

### **Note 10 - State Aid Anticipation Note**

On August 20, 2010, Lapeer Community Schools of Lapeer County borrowed \$4.85 million in a state aid anticipation note. The note bears interest at a rate ranging from 0.40 percent to 0.80 percent. A total of \$2.95 million of this note is due on August 22, 2011 and the remaining \$1.9 million is due in monthly installments including interest of \$276,857 from January 20, 2011 through August 19, 2011.

### **Note 11 - Subsequent Events**

The School District borrowed approximately \$7.60 million on August 22, 2011 through the Michigan Municipal Bond Authority in anticipation of state aid at a rate ranging from 0.60 percent to 1.8 percent. \$5.1 million of this note is due on August 20, 2012 and the remaining \$2.5 million is due in monthly installments including interest of \$359,274 from January 20, 2012 through July 20, 2012.

### **Note 12 - Upcoming Accounting Pronouncements**

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

## **Required Supplemental Information**

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# Lapeer Community Schools of Lapeer County

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 7,781,016	\$ 7,621,885	\$ 7,545,748	\$ (76,137)
State sources	39,687,697	39,892,106	39,995,560	103,454
Federal sources	2,882,822	4,451,252	4,307,727	(143,525)
Interdistrict sources	-	-	78,524	78,524
Total revenue	<u>50,351,535</u>	<u>51,965,243</u>	<u>51,927,559</u>	<u>(37,684)</u>
<b>Expenditures - Current</b>				
Instruction:				
Basic programs	26,083,539	26,651,106	27,197,916	546,810
Added needs	6,816,170	6,925,536	6,823,660	(101,876)
Capital outlay	22,650	14,706	18,427	3,721
Support services:				
Pupil	3,162,127	3,022,144	3,064,044	41,900
Instructional staff	2,139,324	2,144,310	2,161,621	17,311
General administration	431,672	434,305	467,796	33,491
School administration	3,573,263	3,798,311	3,659,504	(138,807)
Business services	955,345	883,635	873,135	(10,500)
Operations and maintenance	3,746,417	4,228,066	3,913,286	(314,780)
Pupil transportation services	2,848,828	2,861,499	2,738,263	(123,236)
Central services	1,675,816	1,802,224	1,845,317	43,093
Capital outlay	167,530	194,860	186,083	(8,777)
Community services	277,347	273,234	295,429	22,195
Capital outlay	69,900	9,900	23,966	14,066
Intergovernmental transfers	92,402	117,761	53,474	(64,287)
Total expenditures	<u>52,062,330</u>	<u>53,361,597</u>	<u>53,321,921</u>	<u>(39,676)</u>
<b>Other Financing Sources -</b>				
Proceeds from sale of capital assets	-	-	5,000	5,000
<b>Net Change in Fund Balance</b>	<u>(1,710,795)</u>	<u>(1,396,354)</u>	<u>(1,389,362)</u>	<u>6,992</u>
<b>Fund Balance - July 1, 2010</b>	<u>6,818,802</u>	<u>6,818,802</u>	<u>6,818,802</u>	<u>-</u>
<b>Fund Balance - June 30, 2011</b>	<u><b>\$ 5,108,007</b></u>	<u><b>\$ 5,422,448</b></u>	<u><b>\$ 5,429,440</b></u>	<u><b>\$ 6,992</b></u>

## **Other Supplemental Information**

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# Lapeer Community Schools of Lapeer County

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

	Special Revenue Funds	Debt Service Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
	Cafeteria	Durant Bond	2007 Debt	Sinking Fund	Sale of Facilities	
<b>Assets</b>						
Cash and investments	\$ 77,901	\$ -	\$ -	\$ -	\$ 51,906	\$ 129,807
Receivables	32,746	-	299	-	-	33,045
Restricted assets	-	-	1,619,927	484,284	-	2,104,211
<b>Total assets</b>	<b>\$ 110,647</b>	<b>\$ -</b>	<b>\$ 1,620,226</b>	<b>\$ 484,284</b>	<b>\$ 51,906</b>	<b>\$ 2,267,063</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 90,500	\$ -	\$ -	\$ -	\$ -	\$ 90,500
Due to other funds	7,541	-	-	-	-	7,541
<b>Total liabilities</b>	<b>98,041</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,041</b>
<b>Fund Balances</b>						
Restricted:						
Capital projects	-	-	-	484,284	-	484,284
Debt service	-	-	1,620,226	-	-	1,620,226
Food service	12,606	-	-	-	-	12,606
Committed - Capital projects	-	-	-	-	51,906	51,906
<b>Total fund balances</b>	<b>12,606</b>	<b>-</b>	<b>1,620,226</b>	<b>484,284</b>	<b>51,906</b>	<b>2,169,022</b>
<b>Total liabilities and fund balances</b>	<b>\$ 110,647</b>	<b>\$ -</b>	<b>\$ 1,620,226</b>	<b>\$ 484,284</b>	<b>\$ 51,906</b>	<b>\$ 2,267,063</b>

# Lapeer Community Schools of Lapeer County

## 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 Funds		Total Nonmajor Governmental Funds
	Cafeteria	Durant Bond	2007 Debt	Sinking Fund	Sale of Facilities	
<b>Revenue</b>						
Local sources	\$ 773,606	\$ -	\$ 3,655,407	\$ 1,712	\$ 87	\$ 4,430,812
State sources	171,753	56,415	-	-	-	228,168
Federal sources	1,602,246	-	-	-	-	1,602,246
Total revenue	2,547,605	56,415	3,655,407	1,712	87	6,261,226
<b>Expenditures</b>						
Current - Food services	2,517,958	-	-	-	-	2,517,958
Debt service:						
Principal	-	49,067	1,000,000	-	-	1,049,067
Interest	-	7,348	2,661,600	-	-	2,668,948
Other	-	-	3,466	-	-	3,466
Capital outlay	28,681	-	-	372,347	2,981	404,009
Total expenditures	2,546,639	56,415	3,665,066	372,347	2,981	6,643,448
<b>Net Change in Fund Balances</b>	966	-	(9,659)	(370,635)	(2,894)	(382,222)
<b>Fund Balances - Beginning of year</b>	11,640	-	1,629,885	854,919	54,800	2,551,244
<b>Fund Balances - End of year</b>	<u>\$ 12,606</u>	<u>\$ -</u>	<u>\$ 1,620,226</u>	<u>\$ 484,284</u>	<u>\$ 51,906</u>	<u>\$ 2,169,022</u>



# Lapeer Community Schools of Lapeer County

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## Other Supplemental Information Combining Statement of Net Assets Private Purpose Trust Funds June 30, 2011

	<u>Hall Endowment</u>	<u>Project Close-up</u>	<u>Beckwith</u>	<u>Total</u>
<b>Assets - Cash and cash equivalents</b>	<u>\$ 11,305</u>	<u>\$ 8,925</u>	<u>\$ 6,583</u>	<u>\$ 26,813</u>
<b>Net Assets - Restricted for endowments</b>	<u>\$ 11,305</u>	<u>\$ 8,925</u>	<u>\$ 6,583</u>	<u>\$ 26,813</u>

# Lapeer Community Schools of Lapeer County

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Private Purpose Trust Funds Year Ended June 30, 2011

	Hall Endowment	Project Close-up	Beckwith	Total
<b>Operating Revenue</b> - Interest and other	\$ 18	\$ 14	\$ 10	\$ 42
<b>Operating Expenses</b> - Scholarships, other expenses, and transfers out to Lapeer County Community Foundation	<u>1,000</u>	<u>-</u>	<u>148</u>	<u>1,148</u>
<b>Change in Net Assets</b>	(982)	14	(138)	(1,106)
<b>Net Assets</b> - Beginning of year	<u>12,287</u>	<u>8,911</u>	<u>6,721</u>	<u>27,919</u>
<b>Net Assets</b> - End of year	<u><u>\$ 11,305</u></u>	<u><u>\$ 8,925</u></u>	<u><u>\$ 6,583</u></u>	<u><u>\$ 26,813</u></u>

# Lapeer Community Schools of Lapeer County

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

June 30	2007 Limited Tax School Building and					
	Durant Bond		Site Bonds		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2012	\$ 279,897	\$ 99,144	\$ 1,145,000	\$ 2,621,600	\$ 1,424,897	\$ 2,720,744
2013	53,847	2,564	1,200,000	2,575,800	1,253,847	2,578,364
2014	-	-	1,245,000	2,527,800	1,245,000	2,527,800
2015	-	-	1,305,000	2,478,000	1,305,000	2,478,000
2016	-	-	1,375,000	2,412,750	1,375,000	2,412,750
2017	-	-	1,450,000	2,344,000	1,450,000	2,344,000
2018	-	-	1,525,000	2,271,500	1,525,000	2,271,500
2019	-	-	1,600,000	2,195,250	1,600,000	2,195,250
2020	-	-	1,675,000	2,115,250	1,675,000	2,115,250
2021	-	-	1,750,000	2,031,500	1,750,000	2,031,500
2022	-	-	1,825,000	1,944,000	1,825,000	1,944,000
2023	-	-	1,900,000	1,852,750	1,900,000	1,852,750
2024	-	-	2,000,000	1,753,000	2,000,000	1,753,000
2025	-	-	2,100,000	1,648,000	2,100,000	1,648,000
2026	-	-	2,200,000	1,537,750	2,200,000	1,537,750
2027	-	-	2,300,000	1,422,250	2,300,000	1,422,250
2028	-	-	2,400,000	1,301,500	2,400,000	1,301,500
2029	-	-	2,500,000	1,187,500	2,500,000	1,187,500
2030	-	-	2,600,000	1,068,750	2,600,000	1,068,750
2031	-	-	2,625,000	938,750	2,625,000	938,750
2032	-	-	2,650,000	807,500	2,650,000	807,500
2033	-	-	2,675,000	675,000	2,675,000	675,000
2034	-	-	2,700,000	541,250	2,700,000	541,250
2035	-	-	2,700,000	406,250	2,700,000	406,250
2036	-	-	2,700,000	271,250	2,700,000	271,250
2037	-	-	2,725,000	136,250	2,725,000	136,250
<b>Total principal</b>	<b>\$ 333,744</b>	<b>\$ 101,708</b>	<b>\$ 52,870,000</b>	<b>\$ 41,065,200</b>	<b>\$ 53,203,744</b>	<b>\$ 41,166,908</b>
Principal payments due	May 15		May 1			
Interest payments due	May 15		May 15			
Interest rate	4.76%		4.00% - 5.25%			
Original issue	<b>\$ 803,366</b>		<b>\$ 55,205,000</b>			