

Lapeer Community Schools of Lapeer County

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

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, the 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, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, the major fund, and the aggregate remaining fund information of Lapeer Community Schools of Lapeer County as of June 30, 2012 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.

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

To the Board of Education
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 presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 3, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Morse, PLLC

October 3, 2012

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis

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

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand 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 fund - the General Fund - 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 Major Funds

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 revenues 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 revenues 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, 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, 2012 and 2011:

	Governmental Activities	
	June 30	
	2012	2011
	(in millions)	
Assets		
Current and other assets	\$ 17.5	\$ 16.8
Capital assets	<u>71.6</u>	<u>74.6</u>
Total assets	89.1	91.4
Liabilities		
Current liabilities	11.5	9.1
Long-term liabilities	<u>54.2</u>	<u>56.5</u>
Total liabilities	<u>65.7</u>	<u>65.6</u>
Net Assets		
Invested in capital assets - Net of related debt	19.3	20.6
Restricted	1.7	1.6
Unrestricted	<u>2.4</u>	<u>3.6</u>
Total net assets	<u><u>\$ 23.4</u></u>	<u><u>\$ 25.8</u></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 \$23.4 million at June 30, 2012 and \$25.8 million at June 30, 2011. Capital assets, net of related debt totaling \$19.3 million at June 30, 2012 and \$20.6 million at June 30, 2011, 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 \$2.4 million at June 30, 2012 and \$3.6 million at June 30, 2011 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 (Table 2), which shows the changes in net assets for fiscal years 2012 and 2011.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2012	2011
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.6	\$ 1.2
Operating grants and contributions	7.9	7.4
General revenue:		
Property taxes	9.9	10.1
State foundation allowance	35.8	36.7
Federal stabilization and Educational Jobs Fund	-	2.1
Other	0.3	0.7
Total revenue	<u>55.5</u>	<u>58.2</u>
Functions/Program Expenses		
Instruction	31.7	35.7
Support services	16.7	17.3
Athletics	1.1	1.2
Food services	2.5	2.5
Community services	0.3	0.3
Other	0.1	0.1
Interest on long-term debt	2.7	2.7
Depreciation (unallocated)	2.8	1.5
Total functions/program expenses	<u>57.9</u>	<u>61.3</u>
Decrease in Net Assets	(2.4)	(3.1)
Net Assets - Beginning of year	<u>25.8</u>	<u>28.9</u>
Net Assets - End of year	<u><u>\$ 23.4</u></u>	<u><u>\$ 25.8</u></u>

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 \$57.9 million in 2012 and \$61.3 million in 2011. Certain activities were partially funded from those who benefited from the programs (\$1.6 million in 2012 and \$1.2 million in 2011) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7.9 million in 2012 and \$7.4 million in 2011). We paid for the remaining "public benefit" portion of our governmental activities with \$9.9 million in taxes in 2012 and \$10.1 million in taxes in 2011, \$35.8 million in unrestricted state and federal aid in 2012 and \$38.8 million in 2011, and with our other revenue, i.e., interest and general entitlements.

The School District experienced a decrease in net assets of \$2.4 million in 2012 and a decrease of \$3.1 million in 2011. Key reasons for the change in net assets were the write-down of assets upon the closing of Seaton Elementary School 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 \$6.5 million, which is a decrease of \$1.7 million from prior year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased from \$5.4 million to \$3.3 million. The change is mainly due to:

- A decrease in foundation allowance revenue due to a loss of 100 students (\$.7 million)
- A decrease in foundation allowance revenue provided by the State of over \$270 per pupil (\$1.6 million)
- Unexpected increase in diesel fuel (\$.1 million)
- Increase in State-determined retirement rate from 20.66 percent to 24.46 percent (\$1.1 million)

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

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.

The School District maintains a fund to segregate the voter-approved Sinking Fund millage. 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, 2012 for the Capital Projects Sinking Fund was approximately \$.5 million.

During the year, the School District collected taxes authorized by the 2007 Capital Bond in the amount of approximately \$3.7 million. Bond principal and interest payments were made in the amount of \$1.1 million and \$2.6 million, respectively, during the fiscal year, and the fund balance at June 30, 2012 for the 2007 Debt Service Fund was approximately \$1.5 million. This amount is necessary for the payment of bond interest due in November 2012.

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 \$52,000. During the year, the School District sold an unused elementary facility for approximately \$.15 million which increased the fund balance at June 30, 2012 to approximately \$.2 million. No projects were scheduled or completed from this Capital Fund during the 2011-2012 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 revenues 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 required supplemental information of these financial statements.

There were several revisions made to the 2011-2012 General Fund original budget. Budgeted revenues were increased \$1.6 million due to an unexpected eligibility for State Aid "best practices" funds (\$.6 million), an unanticipated increase in foundation allowance payments due to actual student enrollment greater than original estimates (\$.45 million), and an unanticipated Medicaid settlement payment received just before the end of the fiscal year (\$.3 million).

Budgeted expenditures were also increased \$1.2 million to account for the increase in teacher salaries related to the additional students as well as increased special education teacher and paraprofessional needs.

There were no significant variances between the final budget and actual amounts.

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the School District had \$71.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$3.0 million from last year.

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 9,746,337	\$ 9,763,183
Construction in progress	101,831	117,308
Buildings and building improvements	76,738,391	78,450,934
Buses and other vehicles	4,199,585	4,391,929
Furniture and equipment	<u>8,458,287</u>	<u>8,505,077</u>
Total capital assets	99,244,431	101,228,431
Less accumulated depreciation	<u>27,658,032</u>	<u>26,597,098</u>
Net capital assets	<u>\$ 71,586,399</u>	<u>\$ 74,631,333</u>

This year's additions of \$.3 million included primarily technology and used school buses. No debt was issued for these additions.

The School District anticipates only one significant capital project for the 2012-2013 fiscal year, the retro-fitting of Turrill Elementary School for use as a year-round campus. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

The School District has one bond outstanding for \$53.1 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 \$3.7 million and principal and interest payments were made totaling approximately \$3.8 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, 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 2012-2013 fiscal year early in the 2012 school 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 student enrollment as well as increased energy costs, the School District employed a budget reduction process that has reduced General Fund expenditures by approximately \$3.6 million. The School District budget for 2012-2013 does not anticipate the use of any fund balance to fund current programs.

Expenditures for employee compensation and fringe benefits make up approximately 86 percent of the School District's budget. Significant increases in healthcare benefits were mitigated when, in conjunction with their association groups, the School District adopted the State authorized maximum limit for medical costs. In addition, as a part of the School District budget reduction process, most School District employee groups have agreed to substantial 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 expenditures.

Contacting the School District's Management

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

Lapeer Community Schools of Lapeer County

Statement of Net Assets June 30, 2012

	Governmental Activities
Assets	
Cash and investments	\$ 7,119,492
Receivables	7,497,863
Inventories	19,560
Prepaid costs and other assets	172,943
Restricted assets	2,705,245
Capital assets - Net	71,586,399
Total assets	89,101,502
Liabilities	
Accounts payable	1,270,744
Accrued payroll-related liabilities and other	3,939,762
State aid anticipation note	5,444,357
Accrued interest	453,348
Deferred revenue	375,835
Long-term liabilities:	
Due within one year	2,130,001
Due in more than one year	52,110,679
Total liabilities	65,724,726
Net Assets	
Invested in capital assets - Net of related debt	19,262,335
Restricted:	
Debt service	1,095,038
Capital projects	484,776
Food Service Fund	172,348
Unrestricted	2,362,279
Total net assets	<u><u>\$ 23,376,776</u></u>

Lapeer Community Schools of Lapeer County

Statement of Activities Year Ended June 30, 2012

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	\$ 31,686,165	\$ -	\$ 4,858,074	\$ (26,828,091)
Support services	16,656,682	136,672	1,069,952	(15,450,058)
Athletics	1,147,797	264,211	-	(883,586)
Food services	2,549,572	815,225	1,916,147	181,800
Community services	317,743	378,970	-	61,227
Intergovernmental transfers	46,290	-	-	(46,290)
Interest	2,720,564	-	-	(2,720,564)
Depreciation expense (unallocated)	2,779,751	-	-	(2,779,751)
Total primary government	\$ 57,904,564	\$ 1,595,078	\$ 7,844,173	(48,465,313)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				6,206,591
Property taxes, levied for debt service				3,676,466
Property taxes, levied for capital projects				111
State aid not restricted to specific purposes				35,825,540
Interest and investment earnings				17,563
Loss on the sale and impairment of capital assets				(429,030)
Other				725,985
Total general revenue				46,023,226
Change in Net Assets				(2,442,087)
Net Assets - Beginning of year				25,818,863
Net Assets - End of year				\$ 23,376,776

Lapeer Community Schools of Lapeer County

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 6,722,018	\$ 397,474	\$ 7,119,492
Receivables (Note 4)	7,409,525	88,338	7,497,863
Due from other funds (Note 6)	127,957	103,336	231,293
Inventories	19,560	-	19,560
Prepaid costs and other assets	172,943	-	172,943
Restricted assets (Notes 1 and 3)	-	2,705,245	2,705,245
	<u>\$14,452,003</u>	<u>\$ 3,294,393</u>	<u>\$ 17,746,396</u>
Total assets			
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,235,215	\$ 156,912	\$ 1,392,127
Accrued payroll-related liabilities and other	3,939,762	-	3,939,762
State aid anticipation note (Note 10)	5,444,357	-	5,444,357
Accrued interest (Note 10)	27,159	-	27,159
Due to other funds (Note 6)	103,336	6,574	109,910
Deferred revenue (Note 4)	375,835	-	375,835
	<u>11,125,664</u>	<u>163,486</u>	<u>11,289,150</u>
Total liabilities			
Fund Balances			
Nonspendable:			
Inventory	19,560	-	19,560
Prepaid assets	172,943	-	172,943
Restricted:			
Capital projects	-	1,236,792	1,236,792
Debt service	-	1,521,227	1,521,227
Food service	-	172,348	172,348
Committed - Capital projects	-	200,540	200,540
Unassigned	3,133,836	-	3,133,836
	<u>3,326,339</u>	<u>3,130,907</u>	<u>6,457,246</u>
Total fund balances			
Total liabilities and fund balances	<u>\$14,452,003</u>	<u>\$ 3,294,393</u>	<u>\$ 17,746,396</u>

Lapeer Community Schools of Lapeer County

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

Fund Balance Reported in Governmental Funds \$ 6,457,246

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	\$ 99,244,431	
Accumulated depreciation	<u>(27,658,032)</u>	71,586,399

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	(53,076,080)	
Compensated absences	(285,600)	
Early retirement incentive	(655,000)	
Risk liability	<u>(224,000)</u>	(54,240,680)

Accrued interest payable is not included as a liability in governmental funds		<u>(426,189)</u>
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Net Assets of Governmental Activities **\$ 23,376,776**

Lapeer Community Schools of Lapeer County

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 7,942,021	\$ 4,693,732	\$ 12,635,753
State sources	39,260,913	557,292	39,818,205
Federal sources	1,646,705	1,737,896	3,384,601
Total revenue	48,849,639	6,988,920	55,838,559
Expenditures			
Current:			
Instruction	32,045,952	-	32,045,952
Support services	17,030,504	18,699	17,049,203
Athletics	1,147,797	-	1,147,797
Food services	-	2,549,572	2,549,572
Community services	317,743	-	317,743
Debt service:			
Principal	-	1,424,897	1,424,897
Interest	-	2,720,744	2,720,744
Other	-	10,913	10,913
Capital outlay	383,282	24,944	408,226
Intergovernmental transfers	46,290	-	46,290
Total expenditures	50,971,568	6,749,769	57,721,337
Excess of Revenue (Under) Over Expenditures	(2,121,929)	239,151	(1,882,778)
Other Financing Sources -			
Proceeds from sale of capital assets	18,828	148,590	167,418
Net Change in Fund Balances	(2,103,101)	387,741	(1,715,360)
Fund Balances - Beginning of year	5,429,440	2,743,166	8,172,606
Fund Balances - End of year	\$ 3,326,339	\$ 3,130,907	\$ 6,457,246

Lapeer Community Schools of Lapeer County

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (1,715,360)

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

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

Depreciation expense	\$ (2,779,751)	
Capitalized capital outlay	<u>331,265</u>	(2,448,486)

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets. Also, impairment losses are recognized in the statement of activities for the write-down of impaired assets

(596,448)

Amortization of bond premium is recorded as an expense in the statement of activities and the amortization of bond issuance costs is recorded as revenue in the statement of activities

52,948

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities

1,424,897

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

11,093

Compensated absences and early retirement incentives, as well as estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than earned

829,269

Change in Net Assets of Governmental Activities \$ (2,442,087)

Lapeer Community Schools of Lapeer County

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2012

	Private Purpose Trust	Student Activities Agency Fund
Assets - Cash and investments	\$ 25,795	<u>\$ 662,306</u>
Liabilities		
Due to student groups	-	\$ 540,923
Due to other funds (Note 6)	-	<u>121,383</u>
Total liabilities	-	<u>\$ 662,306</u>
Net Assets - Restricted for endowments	<u>\$ 25,795</u>	

Lapeer Community Schools of Lapeer County

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2012

	Private Purpose Trust Funds
Additions - Revenue	\$ 21
Deductions - Scholarships and other expenses	<u>1,039</u>
Change in Net Assets	(1,018)
Net Assets - Beginning of year	<u>26,813</u>
Net Assets - End of year	<u><u>\$ 25,795</u></u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

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

Notes to Financial Statements June 30, 2012

Note I - 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 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 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

Notes to Financial Statements June 30, 2012

Note I - 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 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 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.

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.

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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

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

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

Private Purpose Trust Fund - The Private Purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

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, 2012

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, 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

Notes to Financial Statements June 30, 2012

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 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.

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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

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

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 and athletics is included within central services. Capital outlay and athletics are 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 - Added needs	\$ 6,955,555	\$ 7,446,525

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.

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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

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 be used for the School District's deposits for custodial credit risk. As of year end, the School District's deposit balance of \$9,747,125 included \$9,247,125 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.

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, 2012, the School District did not have investments with custodial credit risk.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market 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>
Comerica investment pool	<u>\$ 1,201,887</u>	Not required	AI/PI	S&P/Moody's

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The School District's investments consist of all bank investment pool accounts, which are considered to be low-risk investments.

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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 4 - Receivables and Deferred Revenue

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

	General Fund	Nonmajor Governmental Funds	Total
Receivables:			
Taxes	\$ 52	\$ 4,156	\$ 4,208
Accounts receivable	16,234	-	16,234
Intergovernmental	7,393,239	84,182	7,477,421
Total receivables	<u>\$ 7,409,525</u>	<u>\$ 88,338</u>	<u>\$ 7,497,863</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:

	Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 368,085
Childcare revenue received but not earned	<u>7,750</u>
Total	<u>\$ 375,835</u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2011	Additions and Adjustments	Disposals and Adjustments	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 1,046,763	\$ -	\$ -	\$ 1,046,763
Construction in progress	117,308	101,832	117,309	101,831
Capital assets being depreciated:				
Land improvements	8,716,420	-	16,846	8,699,574
Building and building improvements	78,450,934	78,087	1,790,630	76,738,391
Furniture and equipment	8,505,077	77,607	124,397	8,458,287
Buses and other vehicles	4,391,929	111,180	303,524	4,199,585
Subtotal	100,064,360	266,874	2,235,397	98,095,837
Accumulated depreciation:				
Land improvements	1,435,878	390,597	16,846	1,809,629
Buildings and improvements	19,335,217	1,573,841	1,364,757	19,544,301
Furniture and equipment	2,372,176	557,112	33,690	2,895,598
Buses and other vehicles	3,453,827	258,201	303,524	3,408,504
Subtotal	26,597,098	2,779,751	1,718,817	27,658,032
Net capital assets being depreciated	73,467,262	(2,512,877)	516,580	70,437,805
Net capital assets	\$ 74,631,333	\$ (2,411,045)	\$ 633,889	\$ 71,586,399

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 multiple active 2007 bond issue construction projects at year end. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Lynch interior remodeling	\$ 805	\$ 36,002
Schickler excavating/paving	250	32,708
Turill excavating/paving	475	32,708
Turill interior remodeling	1,170	36,002

Asset Impairment - Impairment loss reported in the governmental activities of \$403,482 was a result of a school building closure.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Fund Due To	General Fund	Nonmajor Governmental Funds	Fiduciary Funds	Total
General Fund	\$ -	\$ 6,574	\$ 121,383	\$ 127,957
Nonmajor governmental funds	\$ 103,336	-	-	103,336

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. 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
Governmental Activities					
Bonds	\$ 53,203,744	\$ -	\$ 1,424,897	\$ 51,778,847	\$ 1,253,847
Bond premium	1,679,423	-	65,860	1,613,563	65,860
Bond issuance cost	(329,242)	-	(12,912)	(316,330)	(12,912)
Total bonds payable	54,553,925	-	1,477,845	53,076,080	1,306,795
Other obligations	1,993,869	1,079,387	1,908,656	1,164,600	823,206
Total governmental activities	\$ 56,547,794	\$ 1,079,387	\$ 3,386,501	\$ 54,240,680	\$ 2,130,001

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
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	1,450,000	2,344,000	3,794,000
2018-2022	8,375,000	10,557,500	18,932,500
2023-2027	10,500,000	8,213,750	18,713,750
2028-2032	12,775,000	5,304,000	18,079,000
2033-2037	13,500,000	2,030,000	15,530,000
Total	<u>\$ 51,778,847</u>	<u>\$ 38,446,164</u>	<u>\$ 90,225,011</u>

Governmental Activities

General obligation bonds consist of the following:

\$55,205,000 - 2007 general obligation bonds due in annual installments of \$1,200,000 to \$2,725,000 through May 2037; interest at 4.00 percent to 5.25 percent	\$ 51,725,000
\$803,366 - Durant bonds due in an annual installment of \$53,847 on May 15, 2013; interest at 4.76 percent	<u>53,847</u>
Total bonded debt	<u>\$ 51,778,847</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	\$ 285,600
Early retirement incentives	655,000
Risk liability	<u>224,000</u>
Total	<u>\$ 1,164,600</u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for 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.

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:

	<u>2012</u>	<u>2011</u>
Estimated liability - Beginning of year	\$ 95,000	\$ 317,000
Estimated claims incurred - Including changes in estimates	759,356	870,895
Claim payments	<u>(630,356)</u>	<u>(1,092,895)</u>
Estimated liability - End of year	<u>\$ 224,000</u>	<u>\$ 95,000</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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

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

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

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 1, 2011 through June 30, 2012. The employer contribution rate for pension plus plan members was 10.66 percent for the period from July 1, 2011 through September 30, 2011 and 14.73 percent for the period from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 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, 2012, 2011, and 2010 were \$4,167,929, \$3,569,140, and \$3,144,080, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 8.50 percent of covered payroll for the period from July 1, 2011 through June 30, 2012. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2012, 2011, and 2010 were \$2,361,050, \$2,437,786, and \$2,129,528, respectively.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 10 - State Aid Anticipation Note

On August 22, 2011, Lapeer Community Schools of Lapeer County borrowed \$7.60 million in a state aid anticipation note. The note bears interest at a rate ranging from 0.60 percent to 1.8 percent. A total of \$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 11 - Subsequent Events

The School District borrowed approximately \$9.10 million on August 20, 2012 through the Michigan Municipal Bond Authority in anticipation of state aid at a rate ranging from 0.27 percent to 1.46 percent. A total of \$4.1 million of this note is due on August 20, 2013 and the remaining \$5 million is due in monthly installments including interest of \$717,143 from January 22, 2013 through July 22, 2013.

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.

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

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2012

Note 12 - Upcoming Accounting Pronouncements (Continued)

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

Required Supplemental Information

Lapeer Community Schools of Lapeer County

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 7,546,785	\$ 7,569,326	\$ 7,942,021	\$ 372,695
State sources	37,801,410	39,246,270	39,260,913	14,643
Federal sources	1,654,019	1,831,884	1,646,705	(185,179)
Total revenue	47,002,214	48,647,480	48,849,639	202,159
Expenditures - Current				
Instruction:				
Basic programs	24,115,302	25,067,287	24,599,427	(467,860)
Added needs	6,345,535	6,955,555	7,446,525	490,970
Capital outlay	14,706	48,510	51,945	3,435
Support services:				
Pupil	3,035,248	2,931,989	2,799,354	(132,635)
Instructional staff	2,027,486	2,056,750	2,058,581	1,831
General administration	396,209	470,401	539,167	68,766
School administration	3,800,652	3,591,513	3,502,456	(89,057)
Business services	874,049	914,675	925,113	10,438
Operations and maintenance	4,085,431	3,697,645	3,695,255	(2,390)
Pupil transportation services	2,539,910	2,728,188	2,813,531	85,343
Central services	1,757,815	1,859,612	1,806,706	(52,906)
Capital outlay	238,676	164,501	205,310	40,809
Community services	272,834	316,339	317,743	1,404
Capital outlay	169,900	210,000	126,027	(83,973)
Intergovernmental transfers and other	69,761	54,308	84,428	30,120
Total expenditures	49,743,514	51,067,273	50,971,568	(95,705)
Other Financing Sources -				
Proceeds from sale of capital assets	-	-	18,828	18,828
Net Change in Fund Balance	(2,741,300)	(2,419,793)	(2,103,101)	316,692
Fund Balance - July 1, 2011	5,429,440	5,429,440	5,429,440	-
Fund Balance - June 30, 2012	<u>\$ 2,688,140</u>	<u>\$ 3,009,647</u>	<u>\$ 3,326,339</u>	<u>\$ 316,692</u>

Other Supplemental Information

Lapeer Community Schools of Lapeer County

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

	Special Revenue Funds	Debt Service Funds		Capital Projects Funds		Total Nonmajor Governmental Funds	
	Cafeteria	Durant Bond	2007 Debt	Capital Projects			
				Sinking Fund	2007 Bond Issue		Sale of Facilities
Assets							
Cash and investments	\$ 196,934	\$ -	\$ -	\$ -	\$ -	\$ 200,540	\$ 397,474
Receivables	84,182	-	4,156	-	-	-	88,338
Due from other funds	-	-	3	-	103,333	-	103,336
Restricted assets	-	-	1,517,068	484,776	703,401	-	2,705,245
Total assets	\$ 281,116	\$ -	\$ 1,521,227	\$ 484,776	\$ 806,734	\$ 200,540	\$ 3,294,393
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 102,194	\$ -	\$ -	\$ -	\$ 54,718	\$ -	\$ 156,912
Due to other funds	6,574	-	-	-	-	-	6,574
Total liabilities	108,768	-	-	-	54,718	-	163,486
Fund Balances							
Restricted:							
Capital projects	-	-	-	484,776	752,016	-	1,236,792
Debt service	-	-	1,521,227	-	-	-	1,521,227
Food service	172,348	-	-	-	-	-	172,348
Committed - Capital projects	-	-	-	-	-	200,540	200,540
Total fund balances	172,348	-	1,521,227	484,776	752,016	200,540	3,130,907
Total liabilities and fund balances	\$ 281,116	\$ -	\$ 1,521,227	\$ 484,776	\$ 806,734	\$ 200,540	\$ 3,294,393

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, 2012

	Special Revenue Funds	Debt Service Funds		Capital Projects Funds			Total Nonmajor Governmental Funds
	Cafeteria	Durant Bond	2007 Debt	Sinking Fund	Capital Projects 2007 Bond	Sale of Facilities	
					Issue		
Revenue							
Local sources	\$ 815,311	\$ -	\$ 3,678,514	\$ 492	\$ 199,371	\$ 44	\$ 4,693,732
State sources	178,251	379,041	-	-	-	-	557,292
Federal sources	1,737,896	-	-	-	-	-	1,737,896
Total revenue	2,731,458	379,041	3,678,514	492	199,371	44	6,988,920
Expenditures							
Support services	-	-	-	-	18,699	-	18,699
Food services	2,549,572	-	-	-	-	-	2,549,572
Debt service:							
Principal	-	279,897	1,145,000	-	-	-	1,424,897
Interest	-	99,144	2,621,600	-	-	-	2,720,744
Other	-	-	10,913	-	-	-	10,913
Capital outlay	22,144	-	-	-	2,800	-	24,944
Total expenditures	2,571,716	379,041	3,777,513	-	21,499	-	6,749,769
Excess of Revenue Over (Under) Expenditures	159,742	-	(98,999)	492	177,872	44	239,151
Other Financing Sources -							
Proceeds from sale of capital assets	-	-	-	-	-	148,590	148,590
Net Change in Fund Balances	159,742	-	(98,999)	492	177,872	148,634	387,741
Fund Balances - Beginning of year	12,606	-	1,620,226	484,284	574,144	51,906	2,743,166
Fund Balances - End of year	<u>\$ 172,348</u>	<u>\$ -</u>	<u>\$ 1,521,227</u>	<u>\$ 484,776</u>	<u>\$ 752,016</u>	<u>\$ 200,540</u>	<u>\$ 3,130,907</u>

Lapeer Community Schools of Lapeer County

Other Supplemental Information Combining Statement of Net Assets Private Purpose Trust Funds June 30, 2012

	Hall Endowment	Project Close-up	Beckwith	Total
Assets - Cash and cash equivalents	\$ 10,314	\$ 8,932	\$ 6,549	\$ 25,795
Net Assets - Restricted for endowments	\$ 10,314	\$ 8,932	\$ 6,549	\$ 25,795

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, 2012

	Hall Endowment	Project Close-up	Beckwith	Total
Operating Revenue - Interest and other	\$ 9	\$ 7	\$ 5	\$ 21
Operating Expenses - Scholarships, other expenses, and transfers out to Lapeer County Community Foundation	1,000	-	39	1,039
Change in Net Assets	(991)	7	(34)	(1,018)
Net Assets - Beginning of year	11,305	8,925	6,583	26,813
Net Assets - End of year	<u>\$ 10,314</u>	<u>\$ 8,932</u>	<u>\$ 6,549</u>	<u>\$ 25,795</u>

Lapeer Community Schools of Lapeer County

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

June 30	2007 Limited Tax School Building and					
	Durant Bond		Site Bonds		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
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
Total principal	\$ 53,847	\$ 2,564	\$ 51,725,000	\$ 38,443,600	\$ 51,778,847	\$ 38,446,164
Principal payments due	May 15		May 1			
Interest payments due	May 15		May 1 and November 1			
Interest rate	4.76%		4.00% - 5.25%			
Original issue	\$ 803,366		\$ 55,205,000			