

Lapeer Community Schools of Lapeer County

**Financial Report
with Supplemental Information
June 30, 2014**

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

Report on the Financial Statements

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, 2014 and the related notes to the financial statements, which collectively comprise Lapeer Community Schools of Lapeer County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2014 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education
Lapeer Community Schools
of Lapeer County

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lapeer Community Schools of Lapeer County's basic financial statements. The 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 basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of Lapeer Community Schools of Lapeer County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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* in considering Lapeer Community Schools of Lapeer County's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 30, 2014

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis

This section of the 2014 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, 2014. 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 statement of fiduciary net position and the statement of changes in fiduciary net position, 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 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 position 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, deferred outflows, liabilities, and deferred inflows 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 position - the difference between assets and deferred outflows, compared to liabilities and deferred inflows, as reported in the statement of net position - 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 position - 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 position 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 position 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. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. 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 position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2014 and 2013:

TABLE I	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
Assets		
Current and other assets	\$ 16.4	\$ 18.4
Capital assets	68.8	69.8
Total assets	85.2	88.2
Liabilities		
Current liabilities	11.8	12.5
Long-term liabilities	51.4	51.4
Total liabilities	63.2	63.9
Net Position		
Net investment in capital assets	17.1	18.5
Restricted	2.1	1.9
Unrestricted	2.8	3.9
Total net position	<u>\$ 22.0</u>	<u>\$ 24.3</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$22.0 million at June 30, 2014 and \$24.3 million at June 30, 2013. Net investment in capital assets totaling \$17.1 million at June 30, 2014 and \$18.5 million at June 30, 2013 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 position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use the net position for day-to-day operations.

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

The \$2.8 million at June 30, 2014 and \$3.9 million at June 30, 2013 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position 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 position 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 position for fiscal years 2014 and 2013.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2014	2013
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.5	\$ 1.5
Operating grants and contributions	8.2	8.9
General revenue:		
Property taxes	9.8	9.9
State foundation allowance	34.7	35.6
Federal - Unrestricted	-	0.1
Other	0.4	0.7
Total revenue	<u>54.6</u>	<u>56.7</u>
Functions/Program Expenses		
Instruction	30.5	30.1
Support services	17.2	16.2
Athletics	1.1	1.1
Food services	2.5	2.5
Community services	0.3	0.3
Other	0.1	0.1
Interest on long-term debt	2.4	2.8
Depreciation (unallocated)	2.8	2.7
Total functions/program expenses	<u>56.9</u>	<u>55.8</u>
(Decrease) Increase in Net Position	(2.3)	0.9
Net Position - Beginning of year	<u>24.3</u>	<u>23.4</u>
Net Position - End of year	<u><u>\$ 22.0</u></u>	<u><u>\$ 24.3</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 this year was \$56.9 million in 2014 and \$55.8 million in 2013. Certain activities were partially funded from those who benefited from the programs (\$1.5 million in 2014 and 2013) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.2 million in 2014 and \$8.9 million in 2013). We paid for the remaining "public benefit" portion of our governmental activities with \$9.8 million and \$9.9 million in taxes in 2014 and 2013, respectively, \$34.7 million in unrestricted state and federal aid in 2014 and \$35.6 million in 2013, and with our other revenue (i.e., interest and general entitlements).

The School District experienced a decrease in net position of \$2.3 million in 2014 and an increase of \$0.9 million in 2013. The key reason for the change in net position was a decrease in operating income during the year.

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 \$6.6 million, which is a decrease of \$1.2 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased from \$4.2 million to \$2.6 million. The change is mainly due to:

- A decrease in State Foundation Grant revenue as a result of a budgeted decrease in student population due to birth rate projections as well as a greater-than-anticipated loss of student enrollment during the process of merging the School District's two high schools.
- A decrease in State revenue due to an adjustment for prior years' categorical programs (special education).

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 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, 2014 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 \$3.8 million. Bond principal and interest payments were made in the amount of \$1.2 million and \$2.5 million, respectively, during the fiscal year, and the fund balance at June 30, 2014 for the 2007 Debt Service Fund was approximately \$1.5 million. This amount is necessary for the payment of bond interest due in November 2014.

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 the required supplemental information of these financial statements.

There were significant revisions made to the 2013-2014 General Fund original budget. Budgeted revenues were decreased \$.7 million primarily due to the loss of a higher-than-budgeted number of students as a result of the School District's high school consolidation (\$.75 million) and an unbudgeted loss of categorical revenue from prior years activities (\$.1 million). These losses were partially offset by slightly higher-than-anticipated State Foundation Grant allowance revenue (\$.15 million)

Budgeted expenditures were increased \$.475 million during the year as a result of an increase in salaries and benefits resulting from the School District's revised contract obligations based upon additional State Foundation Grant revenue (\$.2 million) and an increase in classroom teachers and instructional personnel to fund class size stabilization and advanced placement programs (\$.275 million).

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

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$68.8 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 \$1.0 million from last year.

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

	2014	2013
Land and land improvements	\$ 9,745,737	\$ 9,734,937
Construction in progress	471,297	80,734
Buildings and building improvements	77,484,667	76,662,862
Buses and other vehicles	4,427,489	4,424,379
Furniture and equipment	8,422,599	8,534,945
	<u>100,551,789</u>	<u>99,437,857</u>
Total capital assets		
Less accumulated depreciation	<u>31,789,045</u>	<u>29,663,116</u>
Net capital assets	<u>\$ 68,762,744</u>	<u>\$ 69,774,741</u>

This year's additions of \$1.8 million included building improvements and eight new school buses. No debt was issued for these additions.

Additional capital projects are planned for the 2014-2015 fiscal year and include building improvements for the consolidation of two high schools into one and site improvements for a completely renovated athletic complex. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

The School District has one Unlimited Tax Bond obligation outstanding for \$50.5 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 \$3.8 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. During the year, the School District also issued two separate Limited Tax General Obligation Bonds. These bonds have face values of \$775,000 and \$500,000, respectively. These bonds were used to provide for energy-related improvements throughout the School District as well as to provide funds to assist in the renovations of the high schools and to prefund the building of the athletic complex on the West Campus. Repayment of these bonds will come from a combination of energy savings, fundraising activities, and general funds. More detailed information regarding these bonds is presented in Note 7.

Other obligations include accrued vacation pay, sick leave, and capital risk liability. 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 2014-2015 fiscal year early in the 2014 school year for the budget to be adopted by 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 (81 percent from state aid and the foundation allowance) and existing fund balance. As of 2014-2015, the School District is in the third year of a comprehensive three-year budget plan. The budget process for this year included a \$1.6 million dollar reduction in expenditures from consolidation of the School District's high schools and the reconfiguration of its middle schools and advance placement programs. The 2014-2015 budget also included an increase of \$1.1 million in additional State Foundation Grant revenue from increased student enrollment over baseline student enrollment projections. This three-year plan called for a balanced budget by the 2014-2015 school year. This year's adopted budget indicated an anticipated \$57,000 increase to fund equity during the year.

Expenditures for employee compensation and fringe benefits make up approximately 84 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, which are tied to School District student enrollment and other economic factors, 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 2013 Limited Tax General Obligation Bond (energy improvements) should provide additional assistance in avoiding the unanticipated energy and building equipment 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 Position June 30, 2014

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 6,362,501
Receivables (Note 4)	7,755,421
Inventories	36,705
Prepaid costs	148,248
Restricted assets (Note 9)	2,099,543
Capital assets - Net (Note 5)	<u>68,762,744</u>
Total assets	85,165,162
Liabilities	
Accounts payable	1,462,312
Accrued payroll-related liabilities	4,575,880
State aid anticipation note (Note 11)	3,204,138
Accrued interest (Note 11)	374,760
Due to other governmental units	237,298
Unearned revenue (Note 4)	300,570
Noncurrent liabilities:	
Due within one year (Note 7)	1,636,967
Due in more than one year (Note 7)	<u>51,362,176</u>
Total liabilities	<u>63,154,101</u>
Net Position	
Net investment in capital assets	17,082,003
Restricted:	
Debt service	1,145,408
Capital projects	486,863
Food service	528,802
Unrestricted	<u>2,767,985</u>
Total net position	<u><u>\$ 22,011,061</u></u>

Lapeer Community Schools of Lapeer County

Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 30,526,770	\$ -	\$ 5,258,219	\$ (25,268,551)
Support services	17,170,299	113,835	966,408	(16,090,056)
Athletics	1,078,382	247,008	-	(831,374)
Food services	2,513,166	781,261	1,936,435	204,530
Community services	343,968	348,464	-	4,496
Intergovernmental transfers	73,903	-	-	(73,903)
Interest	2,399,107	-	-	(2,399,107)
Depreciation expense (unallocated)	2,771,654	-	-	(2,771,654)
Total primary government	<u>\$ 56,877,249</u>	<u>\$ 1,490,568</u>	<u>\$ 8,161,062</u>	(47,225,619)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				6,039,928
Property taxes, levied for debt service				3,755,879
Property taxes, levied for capital projects				21
State aid not restricted to specific purposes				34,736,436
Interest and investment earnings				13,961
Gain on the sale of capital assets				36,785
Other				396,611
Total general revenues				<u>44,979,621</u>
Change in Net Position				(2,245,998)
Net Position - Beginning of year				<u>24,257,059</u>
Net Position - End of year				<u>\$ 22,011,061</u>

Lapeer Community Schools of Lapeer County

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 4,621,150	\$ 1,741,351	\$ 6,362,501
Receivables (Note 4)	7,604,873	150,548	7,755,421
Due from other funds (Note 6)	144,712	505,950	650,662
Inventories	36,705	-	36,705
Prepaid costs	148,248	-	148,248
Restricted assets (Note 9)	-	2,099,543	2,099,543
	<u>\$12,555,688</u>	<u>\$ 4,497,392</u>	<u>\$ 17,053,080</u>
Total assets			
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,057,871	\$ 433,117	\$ 1,490,988
Accrued payroll-related liabilities	4,575,880	-	4,575,880
State aid anticipation note (Note 11)	3,204,138	-	3,204,138
Accrued interest (Note 11)	41,838	-	41,838
Due to other governmental units	237,298	-	237,298
Due to other funds (Note 6)	505,950	116,036	621,986
Unearned revenue (Note 4)	300,570	-	300,570
	<u>9,923,545</u>	<u>549,153</u>	<u>10,472,698</u>
Total liabilities			
Fund Balances			
Nonspendable:			
Inventory	36,705	-	36,705
Prepaid assets	148,248	-	148,248
Restricted:			
Capital projects	-	842,965	842,965
Debt service	-	1,478,330	1,478,330
Food service	-	528,802	528,802
Assigned			
Capital projects	-	1,096,142	1,096,142
Debt service	-	2,000	2,000
Unassigned	2,447,190	-	2,447,190
	<u>2,632,143</u>	<u>3,948,239</u>	<u>6,580,382</u>
Total fund balances			
Total liabilities and fund balances	<u>\$12,555,688</u>	<u>\$ 4,497,392</u>	<u>\$ 17,053,080</u>

Lapeer Community Schools of Lapeer County

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$	6,580,382
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$	100,551,789
Accumulated depreciation	<u>(31,789,045)</u>	68,762,744
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable, including premiums	(52,036,843)	
Compensated absences	(281,400)	
Risk liability	<u>(680,900)</u>	(52,999,143)
Accrued interest payable is not included as a liability in governmental funds		<u>(332,922)</u>
Net Position of Governmental Activities	\$	<u>22,011,061</u>

Lapeer Community Schools of Lapeer County

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 7,269,217	\$ 4,681,164	\$ 11,950,381
State sources	39,068,703	152,367	39,221,070
Federal sources	1,638,947	1,784,068	3,423,015
Total revenue	47,976,867	6,617,599	54,594,466
Expenditures			
Current:			
Instruction	30,223,339	-	30,223,339
Support services	16,953,110	166,279	17,119,389
Athletics	1,078,382	-	1,078,382
Food services	-	2,513,166	2,513,166
Community services	343,968	-	343,968
Debt service:			
Principal	-	1,245,000	1,245,000
Interest	-	2,548,034	2,548,034
Capital outlay	867,960	1,077,613	1,945,573
Intergovernmental transfers	73,903	-	73,903
Total expenditures	49,540,662	7,550,092	57,090,754
Excess of Revenue Under Expenditures	(1,563,795)	(932,493)	(2,496,288)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	15,810	22,250	38,060
Transfers in	-	10,965	10,965
Transfers out	(10,965)	-	(10,965)
Face value of debt issued	-	1,275,000	1,275,000
Total other financing sources	4,845	1,308,215	1,313,060
Net Change in Fund Balances	(1,558,950)	375,722	(1,183,228)
Fund Balances - Beginning of year	4,191,093	3,572,517	7,763,610
Fund Balances - End of year	\$ 2,632,143	\$ 3,948,239	\$ 6,580,382

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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (1,183,228)

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	\$ (2,771,654)	
Capitalized capital outlay	1,760,932	(1,010,722)

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	(1,275)
--	---------

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities	(1,275,000)
--	-------------

Amortization of bond premium is recorded as an expense in the statement of activities	65,860
---	--------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities	1,245,000
---	-----------

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	83,067
--	--------

Compensated absences and early retirement incentives, as well as estimated risk liabilities, are recorded when earned in the statement of activities. In the current year, more was earned than paid out	(169,700)
--	-----------

Change in Net Position of Governmental Activities \$ (2,245,998)

Lapeer Community Schools of Lapeer County

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Private Purpose Trust	Student Activities Agency Fund
Assets - Cash and cash equivalents	\$ 23,744	<u>\$ 616,336</u>
Liabilities		
Due to student groups	-	\$ 587,660
Due to other funds (Note 6)	-	<u>28,676</u>
Total liabilities	<u>-</u>	<u>\$ 616,336</u>
Net Position	<u>\$ 23,744</u>	

Lapeer Community Schools of Lapeer County

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2014

	Private Purpose Trust
Additions - Revenue	\$ 25
Deductions - Scholarships and other expenses	<u>1,043</u>
Change in Net Position	(1,018)
Net Position - Beginning of year	<u>24,762</u>
Net Position - End of year	<u><u>\$ 23,744</u></u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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 position 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, 2014

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 position 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. Revenue not meeting this definition is classified as a deferred inflow of resources. 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, 2014

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 2013 Debt Service Fund is used to record interest, principal, and other expenditures of the 2013 resolution bond.

Capital Projects Funds - Capital projects funds are used to report capital project activities. The School District has the following capital projects funds:

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.

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.

Athletic Complex Fund - The Athletic Complex Fund reports contributions as revenue and the disbursement of invoices specifically designated for School District athletic facilities. The fund operates until the purpose for which it was created is accomplished.

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, and equipment and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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

Resolution Bond Funds - The 2013 Limited Tax School Building & Site Bonds Capital Project Fund Resolution and the 2014 Limited Tax School Building & Site Bonds Capital Project Fund Resolution funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for capital projects. The funds operate until the purpose for which they were 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 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 Position or Fund Balance

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and demand deposits.

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 rather than when purchased. 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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects 2007 Bond Issue Fund, as well as the unspent property tax revenue levied for the Sinking Fund, require amounts to be set aside for construction and other allowable expenditures. In addition, the unspent property taxes levied in the debt service funds are required to be set aside for future bond principal and interest payments. These amounts have been classified as restricted assets.

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

Buildings, 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.

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 position. Bond premiums and discounts 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 debt service expenditures.

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, 2014

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 do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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, 2014

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. Additionally, for budgeting purposes, proceeds from the sale of capital assets are classified within local revenues. Proceeds are segregated on the statement of revenue, expenditures, and changes in fund balances.

Encumbrances (e.g., purchase orders, contracts) outstanding at year end 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 - Support services - Capital outlay	\$ 526,456	\$ 585,185
General Fund - Intergovernmental transfers and other	76,165	85,401

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, 2014

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 \$9,912,820 included \$9,389,076 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, 2014, the School District did not have investments with custodial credit risk.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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.

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 has no investments as of June 30, 2014.

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 Unavailable/Unearned 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	\$ 5,731	\$ 19,270	\$ 25,001
Accounts receivable	37,500	-	37,500
Intergovernmental	7,561,642	131,278	7,692,920
Total receivables	<u>\$ 7,604,873</u>	<u>\$ 150,548</u>	<u>\$ 7,755,421</u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

Note 4 - Receivables and Unavailable/Unearned Revenue (Continued)

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

	Liability - Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 300,570

Note 5 - Capital Assets

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

	Balance July 1, 2013	Additions and Adjustments	Disposals and Adjustments	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 993,061	\$ -	\$ -	\$ 993,061
Construction in progress	80,734	471,297	80,734	471,297
Subtotal	1,073,795	471,297	80,734	1,464,358
Capital assets being depreciated:				
Land improvements	8,741,876	10,800	-	8,752,676
Building and building improvements	76,662,862	821,805	-	77,484,667
Furniture and equipment	8,534,945	88,254	200,600	8,422,599
Buses and other vehicles	4,424,379	449,510	446,400	4,427,489
Subtotal	98,364,062	1,370,369	647,000	99,087,431
Accumulated depreciation:				
Land improvements	2,124,234	396,809	-	2,521,043
Buildings and improvements	20,775,397	1,541,875	-	22,317,272
Furniture and equipment	3,315,543	555,306	199,325	3,671,524
Buses and other vehicles	3,447,942	277,664	446,400	3,279,206
Subtotal	29,663,116	2,771,654	645,725	31,789,045
Net capital assets being depreciated	68,700,946	(1,401,285)	1,275	67,298,386
Net capital assets	\$ 69,774,741	\$ (929,988)	\$ 82,009	\$ 68,762,744

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

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

Construction Commitments - The School District had several split funded construction projects at year end. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Lapeer High School - Music storage room addition	\$ 226,834	\$ 24,688
West Campus - Athletic complex	233,063	866,250
Mayfield - Secure entrance	3,800	22,226
Schickler	3,800	22,226
Murphy	3,800	22,226
Total	<u>\$ 471,297</u>	<u>\$ 957,616</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Agency Fund</u>	
General Fund	\$ -	\$ 116,036	\$ 28,676	\$ 144,712
Nonmajor governmental funds	505,950	-	-	505,950
Total	<u>\$ 505,950</u>	<u>\$ 116,036</u>	<u>\$ 28,676</u>	<u>\$ 650,662</u>

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.

Interfund Transfer

Transfers of \$10,965 from the General Fund to the 2013 Project Bond Debt Service Fund covered the first interest payment owed on the bond and funds to open an account.

Note 7 - Long-term Debt

The School District issues bonds 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 and certain risk liabilities.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 50,525,000	\$ 1,275,000	\$ 1,245,000	\$ 50,555,000	\$ 1,375,000
Bond premium	1,547,703	-	65,860	1,481,843	65,860
Total bonds payable	52,072,703	1,275,000	1,310,860	52,036,843	1,440,860
Other obligations	792,600	1,115,830	946,130	962,300	196,107
Total governmental activities	\$ 52,865,303	\$ 2,390,830	\$ 2,256,990	\$ 52,999,143	\$ 1,636,967

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2015	\$ 1,375,000	\$ 2,512,955	\$ 3,887,955
2016	1,450,000	2,453,106	3,903,106
2017	1,530,000	2,382,542	3,912,542
2018	1,605,000	2,308,012	3,913,012
2019	1,680,000	2,229,732	3,909,732
2020-2024	9,595,000	9,830,311	19,425,311
2025-2029	11,945,000	7,147,974	19,092,974
2030-2034	13,250,000	4,032,290	17,282,290
2035-2037	8,125,000	813,750	8,938,750
Total	\$ 50,555,000	\$ 33,710,672	\$ 84,265,672

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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 \$1,305,000 to \$2,725,000 through May 2037; interest at 4.00 percent to 5.25 percent	\$ 49,280,000
\$500,000 limited tax school building and site bonds due in annual installments of \$25,000 to \$40,000 through May 2029; interest at 2.60 percent	500,000
\$775,000 limited tax school building and site bonds due in annual installments of \$45,000 to \$65,000 through May 2028; interest at 1.72 percent to 3.62 percent	<u>775,000</u>
Total bonded debt	<u>\$ 50,555,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 281,400
Risk liability	<u>680,900</u>
Total	<u>\$ 962,300</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, 2014

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:

	<u>2014</u>	<u>2013</u>
Estimated liability - Beginning of year	\$ 485,400	\$ 224,000
Estimated claims incurred - Including changes in estimates	997,030	993,859
Claim payments	<u>(801,530)</u>	<u>(732,459)</u>
Estimated liability - End of year	<u>\$ 680,900</u>	<u>\$ 485,400</u>

Note 9 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent bond and sinking fund proceeds and related interest	\$ 640,483
Monies reserved to pay off future debt	<u>1,459,060</u>
Total restricted assets	<u>\$ 2,099,543</u>

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PPHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health Contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

For the period from October 1, 2013 through June 30, 2014 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PPHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health Contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

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

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$5,890,475, \$4,739,997, and \$4,167,929, 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 or 20 percent for those not Medicare eligible 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 ranged from 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period October 1, 2013 through June 30, 2014 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2014, 2013, and 2012 were \$1,814,582, \$2,324,545, and \$2,361,050, respectively.

Note 11 - State Aid Anticipation Note

On August 20, 2013, Lapeer Community Schools of Lapeer County borrowed \$6.30 million in a state aid anticipation note. The note bears interest at a rate ranging from 0.43 to 1.38 percent. A total of \$2.7 million of this note is due on August 20, 2014 and the remaining \$3.6 million is due in monthly installments including interest ranging from \$514,476 to \$520,779 from January 21, 2014 through July 21, 2014.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2014

Note 12 - Subsequent Events

On August 20, 2014, Lapeer Community Schools of Lapeer County borrowed \$9.00 million in a state aid anticipation note. The notes bear interest at a rate ranging from 0.42 percent to 1.24 percent. A total of \$3.75 million of this note is due on August 20, 2015 and the remaining \$5.25 million is due in monthly installments including interest ranging from \$750,245 to \$759,188 from January 20, 2015 through July 20, 2015.

Note 13 - Upcoming Accounting Pronouncements

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; however, the impact is expected to be material. 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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	(Under) Over <u>Final Budget</u>
Revenue				
Local sources	\$ 7,383,300	\$ 7,406,035	\$ 7,285,027	\$ (121,008)
State sources	39,626,129	38,984,815	39,068,703	83,888
Federal sources	1,828,631	1,731,190	1,638,947	(92,243)
Total revenue	48,838,060	48,122,040	47,992,677	(129,363)
Expenditures - Current				
Instruction:				
Basic programs	23,174,984	22,410,793	22,595,284	184,491
Added needs	7,502,015	7,492,952	7,628,055	135,103
Capital outlay	13,368	4,207	1,697	(2,510)
Support services:				
Pupil	2,654,789	3,078,981	3,125,531	46,550
Instructional staff	2,455,581	2,532,025	2,420,333	(111,692)
General administration	418,664	500,935	508,386	7,451
School administration	3,025,616	3,054,366	2,899,332	(155,034)
Business services	746,350	890,769	810,928	(79,841)
Operations and maintenance	3,680,380	3,823,339	3,725,784	(97,555)
Pupil transportation services	2,683,687	2,830,343	2,716,275	(114,068)
Central services	1,827,986	1,877,887	1,824,921	(52,966)
Capital outlay	513,056	526,456	585,185	58,729
Community services	332,308	358,241	343,968	(14,273)
Capital outlay	160,000	258,000	280,547	22,547
Intergovernmental transfers and other	51,100	76,165	85,401	9,236
Total expenditures	49,239,884	49,715,459	49,551,627	(163,832)
Net Change in Fund Balance	(401,824)	(1,593,419)	(1,558,950)	34,469
Fund Balance - July 1, 2013	4,191,093	4,191,093	4,191,093	-
Fund Balance - June 30, 2014	<u>\$ 3,789,269</u>	<u>\$ 2,597,674</u>	<u>\$ 2,632,143</u>	<u>\$ 34,469</u>

Other Supplemental Information

Lapeer Community Schools of Lapeer County

	Special Revenue Fund	Debt Service Funds	
	Cafeteria	2013 Project Bond	2007 Debt
Assets			
Cash and cash equivalents	\$ 577,327	\$ 2,000	\$ -
Receivables	131,278	-	19,270
Due from other funds	-	-	-
Restricted assets	-	-	1,459,060
Total assets	<u>\$ 708,605</u>	<u>\$ 2,000</u>	<u>\$ 1,478,330</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 160,563	\$ -	\$ -
Due to other funds	19,240	-	-
Total liabilities	179,803	-	-
Fund Balances			
Restricted:			
Capital projects	-	-	-
Debt service	-	-	1,478,330
Food service	528,802	-	-
Assigned:			
Capital projects	-	-	-
Debt service	-	2,000	-
Total fund balances	<u>528,802</u>	<u>2,000</u>	<u>1,478,330</u>
Total liabilities and fund balances	<u>\$ 708,605</u>	<u>\$ 2,000</u>	<u>\$ 1,478,330</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

Capital Projects Fund						
Sinking Fund	Capital Projects 2007 Bond Issue	Sale of Facilities	2013 Limited Tax School Building & Site Bonds Capital Project Fund Resolution	Athletic Complex	2014 Limited Tax School Building & Site Bonds Capital Project Fund Resolution	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 345,272	\$ 280,708	\$ 36,023	\$ 500,021	\$ 1,741,351
-	-	-	-	-	-	150,548
242,628	59,062	42,670	-	25,483	136,107	505,950
323,413	317,070	-	-	-	-	2,099,543
<u>\$ 566,041</u>	<u>\$ 376,132</u>	<u>\$ 387,942</u>	<u>\$ 280,708</u>	<u>\$ 61,506</u>	<u>\$ 636,128</u>	<u>\$ 4,497,392</u>
\$ 79,178	\$ 20,030	\$ -	\$ 26,310	\$ 429	\$ 146,607	\$ 433,117
-	-	-	96,796	-	-	116,036
79,178	20,030	-	123,106	429	146,607	549,153
486,863	356,102	-	-	-	-	842,965
-	-	-	-	-	-	1,478,330
-	-	-	-	-	-	528,802
-	-	387,942	157,602	61,077	489,521	1,096,142
-	-	-	-	-	-	2,000
486,863	356,102	387,942	157,602	61,077	489,521	3,948,239
<u>\$ 566,041</u>	<u>\$ 376,132</u>	<u>\$ 387,942</u>	<u>\$ 280,708</u>	<u>\$ 61,506</u>	<u>\$ 636,128</u>	<u>\$ 4,497,392</u>

Lapeer Community Schools of Lapeer County

	Special Revenue Fund	Debt Service Funds	
	Cafeteria	2013 Project Bond	2007 Debt
Revenue			
Local sources	\$ 781,676	\$ -	\$ 3,758,706
State sources	152,367	-	-
Federal sources	1,784,068	-	-
Total revenue	2,718,111	-	3,758,706
Expenditures			
Current:			
Support services:			
Business services	-	-	-
Operations and maintenance	17,317	-	-
Food services	2,513,166	-	-
Debt service:			
Principal	-	-	1,245,000
Interest	-	8,965	2,539,069
Capital outlay	34,055	-	-
Total expenditures	2,564,538	8,965	3,784,069
Excess of Revenue Over (Under) Expenditures	153,573	(8,965)	(25,363)
Other Financing Sources			
Proceeds from sale of capital assets	-	-	-
Transfers in	-	10,965	-
Face value of debt issued	-	-	-
Total other financing sources	-	10,965	-
Net Change in Fund Balances	153,573	2,000	(25,363)
Fund Balances - Beginning of year	375,229	-	1,503,693
Fund Balances - End of year	\$ 528,802	\$ 2,000	\$ 1,478,330

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014**

Capital Projects Fund						
Sinking Fund	Capital Projects 2007 Bond Issue	Sale of Facilities	2013 Limited Tax School Building & Site Bonds Capital Project Fund Resolution	Athletic Complex	2014 Limited Tax School Building & Site Bonds Capital Project Fund Resolution	Total Nonmajor Governmental Funds
\$ 447	\$ 374	\$ 446	\$ 75,480	\$ 64,014	\$ 21	\$ 4,681,164
-	-	-	-	-	-	152,367
-	-	-	-	-	-	1,784,068
447	374	446	75,480	64,014	21	6,617,599
-	200	-	19,160	-	10,500	29,860
-	29,198	89,904	-	-	-	136,419
-	-	-	-	-	-	2,513,166
-	-	-	-	-	-	1,245,000
-	-	-	-	-	-	2,548,034
-	366,903	-	673,718	2,937	-	1,077,613
-	396,301	89,904	692,878	2,937	10,500	7,550,092
447	(395,927)	(89,458)	(617,398)	61,077	(10,479)	(932,493)
-	-	22,250	-	-	-	22,250
-	-	-	-	-	-	10,965
-	-	-	775,000	-	500,000	1,275,000
-	-	22,250	775,000	-	500,000	1,308,215
447	(395,927)	(67,208)	157,602	61,077	489,521	375,722
486,416	752,029	455,150	-	-	-	3,572,517
\$ 486,863	\$ 356,102	\$ 387,942	\$ 157,602	\$ 61,077	\$ 489,521	\$ 3,948,239

Lapeer Community Schools of Lapeer County

Other Supplemental Information Combining Statement of Net Position Private Purpose Trust Funds June 30, 2014

	Hall Endowment	Project Close-up	Beckwith	Total
Assets - Cash and cash equivalents	\$ 8,330	\$ 8,946	\$ 6,468	\$ 23,744
Net Position - Restricted for endowments	\$ 8,330	\$ 8,946	\$ 6,468	\$ 23,744

Lapeer Community Schools of Lapeer County

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Private Purpose Trust Funds Year Ended June 30, 2014

	Hall Endowment	Project Close-up	Beckwith	Total
Operating Revenue - Interest and other	\$ 9	\$ 9	\$ 7	\$ 25
Operating Expenses - Scholarships, other expenses, and transfers out to Lapeer County Community Foundation	<u>1,000</u>	<u>-</u>	<u>43</u>	<u>1,043</u>
Change in Net Position	(991)	9	(36)	(1,018)
Net Position - Beginning of year	<u>9,321</u>	<u>8,937</u>	<u>6,504</u>	<u>24,762</u>
Net Position - End of year	<u><u>\$ 8,330</u></u>	<u><u>\$ 8,946</u></u>	<u><u>\$ 6,468</u></u>	<u><u>\$ 23,744</u></u>

Lapeer Community Schools of Lapeer County

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2014

June 30	2007 Debt Principal	2013 Project Bond Principal	2014 Project Bond Principal	Total
2015	\$ 1,305,000	\$ 45,000	\$ 25,000	\$ 1,375,000
2016	1,375,000	45,000	30,000	1,450,000
2017	1,450,000	50,000	30,000	1,530,000
2018	1,525,000	50,000	30,000	1,605,000
2019	1,600,000	50,000	30,000	1,680,000
2020	1,675,000	50,000	30,000	1,755,000
2021	1,750,000	55,000	30,000	1,835,000
2022	1,825,000	55,000	35,000	1,915,000
2023	1,900,000	60,000	35,000	1,995,000
2024	2,000,000	60,000	35,000	2,095,000
2025	2,100,000	60,000	35,000	2,195,000
2026	2,200,000	65,000	35,000	2,300,000
2027	2,300,000	65,000	40,000	2,405,000
2028	2,400,000	65,000	40,000	2,505,000
2029	2,500,000	-	40,000	2,540,000
2030	2,600,000	-	-	2,600,000
2031	2,625,000	-	-	2,625,000
2032	2,650,000	-	-	2,650,000
2033	2,675,000	-	-	2,675,000
2034	2,700,000	-	-	2,700,000
2035	2,700,000	-	-	2,700,000
2036	2,700,000	-	-	2,700,000
2037	2,725,000	-	-	2,725,000
Total	<u>\$ 49,280,000</u>	<u>\$ 775,000</u>	<u>\$ 500,000</u>	<u>\$ 50,555,000</u>
Principal payments due	May 1	May 1	May 1	
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rate	4.00% - 5.25%	1.72% - 3.62%	2.60%	
Original issue	<u>\$ 55,205,000</u>	<u>\$ 775,000</u>	<u>\$ 500,000</u>	<u>\$ 56,480,001</u>