

Lapeer Community Schools of Lapeer County

**Financial Report
with Supplemental Information
June 30, 2006**

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Lapeer Community Schools of Lapeer County

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June 30, 2006**

Lapeer Community Schools of Lapeer County

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Lapeer Community Schools of Lapeer County

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Issued Under
Separate
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Independent Auditor's Report

To the Board of Education
Lapeer Community Schools of Lapeer County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lapeer Community Schools of Lapeer County as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lapeer Community Schools of Lapeer County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lapeer Community Schools of Lapeer County as of June 30, 2006 and the respective changes in financial position, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Education
Lapeer Community Schools of Lapeer County

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lapeer Community Schools of Lapeer County's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated July 28, 2006 on our consideration of the 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

July 28, 2006

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis

This section of the 2006 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, 2006. 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 district-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 district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Sinking 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

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Reporting the School District as a Whole - District-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. 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 and Athletics Funds are examples) 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, 2006 and 2005.

TABLE I

	Governmental Activities	
	2006	2005
	(in millions)	
Assets		
Current and other assets	\$ 22.5	\$ 20.7
Capital assets	<u>19.6</u>	<u>15.5</u>
Total assets	42.1	36.2
Liabilities		
Current liabilities	11.0	10.5
Long-term liabilities	<u>4.9</u>	<u>2.4</u>
Total liabilities	<u>15.9</u>	<u>12.9</u>
Net Assets		
Invested in property and equipment - Net of related debt	19.6	15.5
Restricted for capital projects - Sinking Fund	-	1.0
Unrestricted	<u>6.6</u>	<u>6.8</u>
Total net assets	<u>\$ 26.2</u>	<u>\$ 23.3</u>

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (see Table 1). 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 \$26.2 million at June 30, 2006 and \$23.3 million at June 30, 2005. Capital assets, net of related debt totaling \$19.6 million at June 30, 2006 and \$15.5 million at June 30, 2005, 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. The remaining amount of net assets (\$6.6 million at June 30, 2006 and \$7.8 million at June 30, 2005) is comprised of unrestricted net assets and amounts restricted for Capital Projects - Sinking Fund.

The \$6.6 million at June 30, 2006 and \$6.8 million at June 30, 2005 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2

	Governmental Activities	
	2006	2005
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.9	\$ 1.9
Operating grants	6.2	5.9
General revenue:		
Property taxes	6.2	5.6
Capital projects - Sinking Fund	3.0	2.8
State foundation allowance	42.5	42.1
Other	1.2	0.5
Total revenue	<u>61.0</u>	<u>58.8</u>
Functions/Program Expenses		
Instruction	33.9	33.1
Support services	20.2	19.6
Community services	0.6	0.4
Food services	2.2	2.3
Athletics	1.1	1.0
Interest on long-term debt	0.1	0.1
Total functions/program expenses	<u>58.1</u>	<u>56.5</u>
Increase in Net Assets	<u>\$ 2.9</u>	<u>\$ 2.3</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 \$58.1 million in 2006 and \$56.5 million in 2005. Certain activities were partially funded from those who benefited from the programs (\$1.9 million in 2006 and 2005) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6.2 million in 2006 and \$5.9 million in 2005). We paid for the remaining "public benefit" portion of our governmental activities with \$9.2 million in 2006 and \$8.4 million in taxes in 2005, \$42.5 million in state foundation allowance in 2006 and \$42.1 million in 2005, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$2.9 million in 2006 and an increase of \$2.3 million in 2005. Key reasons for the change in net assets were investments in property and equipment, Sinking Fund revenue received in anticipation of planned future expenditures, and cost reductions in anticipation of State revenue allowances.

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 \$12.0 million, which is an increase of \$1.4 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$.3 million to \$8.9 million. The change is mainly due to the following:

- Total revenue increased by \$1.8 million. The increase in revenue is attributable mainly to an increase in state aid payments (\$1.3 million).
- Federal revenues increased by \$.2 million mostly due to a new Homeland Security Grant, and the balance of additional revenue resulted from unbudgeted local contributions (\$.3 million) and unanticipated investment revenue as a result of rising interest rates (\$.2 million).
- The loss of 100 students (\$.7 million) was offset by increased state and federal grant monies (\$.3 million). As property tax revenue increased, conversely state aid decreased.

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

- General Fund expenditures increased by \$2.8 million, which consisted mainly of salary (\$.7 million) and benefit increases (\$1.1 million), as well as a significant increase in utility costs (\$.5 million) and non-sinking fund capital expenditures (\$.4 million).
- District benefit costs increased due to escalating health care and retirement charges. The mandatory State retirement rate increased from 14.87 percent to 16.34 percent in fiscal year 2005-2006.

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

In the current fiscal year, the School District collected approximately \$3.0 million in voter-approved sinking fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters. The fund balance at June 30, 2006 for the Capital Projects Sinking Fund was approximately \$2.9 million. The fund balance increased approximately \$1.9 million in the current year due to the issuance of a resolution bond to be used to accelerate future spending on specific capital projects.

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 significant revisions made to the 2005-2006 General Fund original budget as compared to the final budget adopted in June 2006. Budgeted revenues increased by \$1,150,000 due primarily to unexpected federal and state grant revenue (\$400,000), significantly improved investment income (\$200,000), and unbudgeted private contributions (\$300,000), which included the construction of a fitness center at East High School.

Budgeted total expenditures were adjusted higher during the year by \$800,000, primarily due to the construction of a fitness center at East High School (\$370,000) and for significant increases in diesel fuel and natural gas and electric utility costs (\$400,000).

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, 2006, the School District had \$19.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$4.0 million from last year.

	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 2,809,893	\$ 2,809,893
Construction in progress	3,511,815	2,669,735
Buildings and building improvements	27,929,767	24,406,164
Buses and other vehicles	3,848,063	4,038,891
Furniture and equipment	<u>3,752,818</u>	<u>3,354,549</u>
Subtotal	41,852,356	37,279,232
Accumulated depreciation	<u>22,302,145</u>	<u>21,742,105</u>
Net capital assets	<u>\$ 19,550,211</u>	<u>\$ 15,537,127</u>

This year's additions of \$8.0 million included net additions of \$7.5 million for building renovations and buses and \$.4 million for additional furniture and equipment. A \$3,000,000 resolution bond was issued as noted below for these additions.

Debt

The School District has one resolution bond outstanding for \$3,000,000 where repayment is funded by sinking fund property tax revenues. Other obligations include accrued vacation pay, sick leave, risk liability, installment debt, and the Durant bond, which is funded by the State of Michigan. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Lapeer Community Schools of Lapeer County

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The School District's Board of Education members and administration begin reviewing revenue and expenditure projections for the 2006-2007 fiscal year late in the 2006 fiscal year for the budget to be adopted July 1. The budget is developed to support programs and services designed to achieve the goals and objectives of the School District as outlined in the School District's strategic plan. Resources for funding the budget include current year revenues (90 percent from State Aid and the Foundation Allowance) and existing fund balance.

Expenditures for employee compensation and fringe benefits make up approximately 85 percent of the School District's budget. Significant increases in health care benefits have been somewhat mitigated by almost 50 percent of employees agreeing to pay a portion of the premium or changing benefit plans to a less expensive plan. Minimal salary increases have also kept costs from rising in this area. Utility costs are contained to the extent possible, by bulk purchasing. Community members approved a Sinking Fund millage on September 29, 2003, providing 2.25 mills for major renovations and facility upgrades, easing the strain on the General Fund capital outlay budget.

Lapeer Community Schools of Lapeer County

Statement of Net Assets June 30, 2006

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 9,126,070
Restricted cash and investments (Note 8)	4,630,594
Receivables - Net (Note 4)	8,710,884
Inventories	49,472
Prepaid costs	47,330
Capital assets - Net (Note 5)	<u>19,550,211</u>
Total assets	42,114,561
Liabilities	
Accounts payable	3,861,113
Accrued payroll and other liabilities	2,351,544
Retainage payable	276,535
Interest payable	119,056
State aid anticipation note (Note 11)	4,000,000
Long-term liabilities (Note 7):	
Due within one year	415,728
Due in more than one year	<u>4,932,477</u>
Total liabilities	<u>15,956,453</u>
Net Assets	
Investment in capital assets - Net of related debt	19,550,211
Unrestricted	<u>6,607,897</u>
Total net assets	<u><u>\$ 26,158,108</u></u>

Lapeer Community Schools of Lapeer County

Statement of Activities Year Ended June 30, 2006

	Program Revenues		Governmental	
	Expenses	Charges for Services	Operating Grants/Contributions	
			Activities	
			Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 33,875,484	\$ -	\$ 4,334,188	\$ (29,541,296)
Support services	20,217,181	41,564	855,009	(19,320,608)
Food services	2,223,194	1,182,480	1,060,569	19,855
Athletics	1,076,316	324,233	-	(752,083)
Community services and other	578,582	303,921	-	(274,661)
Interest on long-term debt	111,684	-	-	(111,684)
	<u>58,082,441</u>	<u>1,852,198</u>	<u>6,249,766</u>	(49,980,477)
Total primary government - Governmental activities				
General revenues:				
				6,157,471
Taxes - Property taxes, levied for general purposes				2,969,722
Taxes - Property taxes, levied for Capital Projects Sinking Fund				42,506,835
State aid not restricted to specific purposes				424,396
Interest and investment earnings				762,570
Other				<u>52,820,994</u>
				Total general revenues
				<u>2,840,517</u>
				Change in Net Assets
				<u>23,317,591</u>
				Net Assets - Beginning of year
				<u>\$ 26,158,108</u>
				Net Assets - End of year

Lapeer Community Schools of Lapeer County

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Capital Projects Sinking Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 8,998,800	\$ 4,630,594	\$ 127,270	\$ 13,756,664
Receivables - Net:				
Due from other funds	16,899	-	30,297	47,196
Due from other governmental units	8,565,146	-	145,738	8,710,884
Inventories	49,472	-	-	49,472
Prepaid costs	47,330	-	-	47,330
Total assets	\$ 17,677,647	\$ 4,630,594	\$ 303,305	\$ 22,611,546
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 2,290,354	\$ 1,467,189	\$ 103,570	\$ 3,861,113
Accrued payroll and other liabilities	2,351,544	-	-	2,351,544
Retainages payable	-	276,535	-	276,535
Interest payable	119,056	-	-	119,056
State aid anticipation note	4,000,000	-	-	4,000,000
Due to other funds	30,297	-	16,899	47,196
Total liabilities	8,791,251	1,743,724	120,469	10,655,444
Fund Balances				
Reserved:				
Encumbrances	290,061	-	-	290,061
Inventories	49,472	-	-	49,472
Prepays	47,330	-	-	47,330
Capital projects	-	2,886,870	-	2,886,870
Unreserved:				
Designated for compensated absences/employee injury claims	979,000	-	-	979,000
Undesignated, reported in:				
General Fund	7,520,533	-	-	7,520,533
Special Revenue Funds	-	-	136,059	136,059
Permanent Funds	-	-	46,777	46,777
Total fund balances	8,886,396	2,886,870	182,836	11,956,102
Total liabilities and fund balances	\$ 17,677,647	\$ 4,630,594	\$ 303,305	\$ 22,611,546

Lapeer Community Schools of Lapeer County

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2006

Fund Balances - Total governmental funds \$ 11,956,102

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

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Cost of capital assets	\$ 41,852,356	
Accumulated depreciation	<u>(22,302,145)</u>	19,550,211

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

Bonds and notes payable	(4,337,624)
Other obligations	<u>(1,010,581)</u>

Net Assets - Governmental activities **\$ 26,158,108**

Lapeer Community Schools of Lapeer County

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Capital Projects Sinking Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 7,592,104	\$ 3,120,495	\$ 1,525,268	\$ 12,237,867
State sources	45,866,302	-	226,496	46,092,798
Federal sources	1,758,355	-	890,488	2,648,843
Interdistrict sources	14,960	-	-	14,960
Total revenue	<u>55,231,721</u>	<u>3,120,495</u>	<u>2,642,252</u>	<u>60,994,468</u>
Expenditures				
Current:				
Instruction	33,755,979	-	-	33,755,979
Support services	18,849,910	-	-	18,849,910
Community services	328,209	-	-	328,209
Food services	-	-	2,184,729	2,184,729
Athletics	-	-	1,040,999	1,040,999
Debt service:				
Principal	370,000	-	38,886	408,886
Interest	58,947	35,208	17,529	111,684
Capital outlay	1,343,663	4,156,771	67,858	5,568,292
Intergovernmental transfers	79,279	-	-	79,279
Total expenditures	<u>54,785,987</u>	<u>4,191,979</u>	<u>3,350,001</u>	<u>62,327,967</u>
Excess (Deficiency) of Revenue Over Expenditures	445,734	(1,071,484)	(707,749)	(1,333,499)
Other Financing Sources (Uses)				
Transfers in	-	-	765,600	765,600
Transfers out	(765,600)	-	-	(765,600)
Transfers to Lapeer County Community Foundation	-	-	(250,373)	(250,373)
Long-term debt issued	-	3,000,000	-	3,000,000
Total other financing sources (uses)	<u>(765,600)</u>	<u>3,000,000</u>	<u>515,227</u>	<u>2,749,627</u>
Net Change in Fund Balances	(319,866)	1,928,516	(192,522)	1,416,128
Fund Balances - Beginning of year	<u>9,206,262</u>	<u>958,354</u>	<u>375,358</u>	<u>10,539,974</u>
Fund Balances - End of year	<u>\$ 8,886,396</u>	<u>\$ 2,886,870</u>	<u>\$ 182,836</u>	<u>\$ 11,956,102</u>

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, 2006

Net Change in Fund Balances - Total governmental funds	\$ 1,416,128
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	\$(1,198,652)
Capitalized capital outlay	<u>5,283,246</u> 4,084,594
The net effect of other transactions involving capital assets (i.e., sales, trade-ins, and donations) that decreased net assets	(71,510)
Bond issuance is not reported as financing sources on the statement of activities	(3,000,000)
Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	408,886
Compensated absences, as well as estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more compensated absences were paid out than were earned. Additional risk liability is reported due to additional claims and increased historical claim reservations	<u>2,419</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,840,517</u>

Lapeer Community Schools of Lapeer County

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2006

	Private Purpose Trusts	Student Activities Agency Fund
Assets - Cash and investments	\$ 58,531	<u>\$ 474,589</u>
Liabilities - Due to student groups	<u>-</u>	<u>\$ 474,589</u>
Net Assets - Held in trust for others	<u>\$ 58,531</u>	

Lapeer Community Schools of Lapeer County

Fiduciary Fund

Statement of Changes in Fiduciary Net Assets - Private Purpose Trusts Year Ended June 30, 2006

Additions - Revenue	\$ 8,929
Deductions - Scholarships, other expenses, and transfers to Lapeer County Community Foundation	<u>17,428</u>
Change in Net Assets	(8,499)
Net Assets - Beginning of year	<u>67,030</u>
Net Assets - End of year	<u><u>\$ 58,531</u></u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements

June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the 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.

District-wide and Fund Financial Statements

The district-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 revenues, 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 district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. 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 revenues 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 district-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, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements - The district-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 district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state 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 revenues to be available if they are expected to be 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, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

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

Capital Projects 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 Sec. 1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Cafeteria, Athletics, and Corporate Development Funds. Any operating deficit generated by these funds is the responsibility of the General Fund.

Permanent Funds - Permanent Funds are used to account for resources legally held in trust for the benefit of the School District.

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.

Assets, Liabilities, and Net Assets or Equity

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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable 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 district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-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	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	3-10 years

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The liability for compensated absences reported in the district-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 district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, the face amount of debt issued is reported as other financing sources.

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. Significant changes to the School District's original budgeted amounts during the year occurred in response to state aid reduction, grants received after adoption, and changes in cost patterns.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. The amount of encumbrances outstanding at June 30, 2006 is \$290,061.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant actual expenditures in excess of budget.

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 three banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in all the allowable investment vehicles noted above.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$11,544,670 had \$11,144,670 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, 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.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of 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, 2006, the School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; 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.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

Note 3 - Deposits and Investments (Continued)

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

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 2,002,000	N/A	Aaa	Moody's
Michigan Liquid Asset Fund (MICMS)	33,132	N/A	AAAm	S&P
Michigan Liquid Asset Fund (MIMAX)	62,947	N/A	AAAm	S&P
Michigan Liquid Asset Fund (Fixed Income)	<u>1,377,012</u>	9/12/06	AAAm	S&P
Total investments	<u>\$ 3,475,091</u>			

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

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

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2006

Note 4 - Receivables

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

	General Fund	Capital Projects Sinking Fund	Nonmajor and Other Funds	Total
Intergovernmental receivables	<u>\$ 8,565,146</u>	<u>\$ -</u>	<u>\$ 145,738</u>	<u>\$ 8,710,884</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, there was no deferred revenue.

The School District has included its receivable for state aid in due from other governmental units. The state aid receivable totals \$8,102,976. This amount has been recognized as revenue for the year ended June 30, 2006, as required by accounting principles generally accepted in the United States of America and state law, despite the fact that it will not be received until after June 30, 2006.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

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

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 1,046,763	\$ -	\$ -	\$ 1,046,763
Construction in progress	2,669,735	3,511,815	2,669,735	3,511,815
Capital assets being depreciated:				
Building and building improvements	24,406,164	3,638,332	114,729	27,929,767
Land improvement	1,763,130	-	-	1,763,130
Buses and other vehicles	4,038,891	391,972	582,800	3,848,063
Furniture and equipment	3,354,549	410,862	12,593	3,752,818
Subtotal	33,562,734	4,441,166	710,122	37,293,778
Accumulated depreciation:				
Land improvements	1,479,399	34,647	-	1,514,046
Building and building improvements	16,312,804	537,755	88,087	16,762,472
Buses and other vehicles	2,283,962	389,620	533,450	2,140,132
Furniture and equipment	1,665,940	236,630	17,075	1,885,495
Subtotal	21,742,105	1,198,652	638,612	22,302,145
Net capital assets being depreciated	11,820,629	3,242,514	71,510	14,991,633
Net governmental capital assets	\$ 15,537,127	\$ 6,754,329	\$ 2,741,245	\$ 19,550,211

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 108,835
Support services	1,078,858
Food services	10,959
Total governmental activities	<u>\$ 1,198,652</u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The School District has several active Sinking Fund construction projects at year end. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Lynch classroom addition	\$ 1,388,714	\$ 1,128,625
Schickler classroom addition	1,462,715	1,068,600
Maple Grove addition	660,386	235,246
Total	\$ 3,511,815	\$ 2,432,471

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

	Fund Due From		
		Nonmajor	
Fund Due To	General Fund	Governmental Funds	Total
General Fund	\$ -	\$ 16,899	\$ 16,899
Nonmajor governmental funds	30,297	-	30,297
Total	\$ 30,297	\$ 16,899	\$ 47,196

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

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

Interfund balances represent routine and temporary cash flow assistance from the funds until amounts are transferred from fund investment accounts.

Interfund Transfers

	Transfers Out		
	General Fund	Other	
		Governmental Funds	Total
Transfers in:			
General Fund	\$ -	\$ -	\$ -
Other governmental funds	765,600	-	765,600
Total	\$ 765,600	\$ -	\$ 765,600

General Fund transfers are used to support and maintain the operations of the fund for the purpose for which they were created. During 2005-2006, the General Fund transferred board-approved funds to the Athletic Fund to support the operations of the fund.

Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 513,244	\$ 3,000,000	\$ 38,886	\$ 3,474,358	\$ 40,728
Notes	1,233,266	-	370,000	863,266	375,000
Other obligations	1,013,000	24,000	58,000	979,000	-
Total governmental activities	\$ 2,759,510	\$ 3,024,000	\$ 466,886	\$ 5,316,624	\$ 415,728

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

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

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 415,728	\$ 154,509	\$ 570,237
2008	3,422,677	134,708	3,557,385
2009	152,976	17,065	170,041
2010	46,837	9,578	56,415
2011	194,158	72,065	266,223
2012-2013	105,248	7,575	112,823
Total	<u>\$ 4,337,624</u>	<u>\$ 395,500</u>	<u>\$ 4,733,124</u>

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
1998	\$ 2,075,000	05/2008	4.67%	\$ 35,025	\$ 500,000
1999	<u>1,098,266</u>	05/2009	4.95%	<u>35,135</u>	<u>363,266</u>
Total	<u>\$ 3,173,266</u>			<u>\$ 70,160</u>	<u>\$ 863,266</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 520,000
Risk liability	<u>459,000</u>
Total	<u>\$ 979,000</u>

Lapeer Community Schools of Lapeer County

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

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 principal installments are required of \$40,728 to \$194,158 from May 15, 2007 through May 15, 2013, with interest at 4.76 percent. 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.

2005 Limited Tax School Building and Site Bond - Included in Governmental Activities General Obligation Bonds is the 2005 Building and Site Bond issued at \$3,000,000. The principal payment is due at maturity on May 1, 2008. Interest is payable at 3.25 percent from November 1, 2006 through May 1, 2008.

Note 8 - Restricted Assets

The balance of the restricted asset accounts is as follows:

	<u>Governmental Activities</u>
Restricted for Capital Projects Sinking Fund	<u>\$ 4,630,594</u>

Note 9 - 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 pools for claims relating to property loss and torts. 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, 2006

Note 9 - Risk Management (Continued)

The School District estimates the liability for employee injury claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - Beginning of year	\$ 507,000	\$ 497,000
Estimated claims incurred - Including changes in estimates	10,000	101,000
Claim payments	<u>58,000</u>	<u>91,000</u>
Estimated liability - End of year	<u>\$ 459,000</u>	<u>\$ 507,000</u>

Note 10 - 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 MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the MPERS 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, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

Lapeer Community Schools of Lapeer County

Notes to Financial Statements
June 30, 2006

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

The pension benefit rate totals 14.87 percent for the period from July 1, 2005 through September 30, 2005 and 16.34 percent from October 1, 2005 through June 30, 2006 of the covered payroll to the plan. 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. The School District's contributions to the MPSERS plan for the years ended June 30, 2006, 2005, and 2004 were \$5,494,262, \$4,755,760, and \$4,299,496, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages 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 coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Note 11 - State Aid Anticipation Note

On August 19, 2005, the Lapeer Community Schools of Lapeer County borrowed \$4.0 million in a state aid anticipation note. The note bears interest at 2.92 percent and is due August 18, 2006. At June 30, 2006, the Lapeer Community Schools of Lapeer County has accrued interest of \$109,231 on this note.

Note 12 - Subsequent Events

The School District intends to borrow approximately \$4.8 million on August 18, 2006 through the Michigan Municipal Bond Authority in anticipation of state aid at a rate of 3.68 percent in August 2007.

Note 13 - Commitments

The School District has commitments at June 30, 2006 related to technology, equipment, and supplies. Commitments at June 30, 2006 totaled \$290,061.

Required Supplemental Information

Lapeer Community Schools of Lapeer County

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 7,357,500	\$ 7,516,500	\$ 7,592,104	\$ 75,604
State sources	45,046,700	45,811,300	45,866,302	55,002
Federal sources	1,561,000	1,791,200	1,758,355	(32,845)
Interdistrict sources	20,000	15,000	14,960	(40)
Total revenue	53,985,200	55,134,000	55,231,721	97,721
Expenditures				
Current:				
Instruction:				
Basic programs	27,815,400	27,387,600	27,202,380	(185,220)
Added needs	6,874,800	6,570,800	6,553,599	(17,201)
Capital outlay	-	63,400	64,154	754
Support services:				
Pupil	2,610,650	3,089,450	3,073,192	(16,258)
Instructional staff	2,328,450	2,121,750	2,064,513	(57,237)
General administration	383,200	560,700	543,657	(17,043)
School administration	3,694,040	3,502,400	3,536,616	34,216
Business services	1,070,060	1,075,900	1,089,403	13,503
Operation and maintenance	4,773,800	4,716,200	4,750,430	34,230
Pupil transportation services	2,969,700	3,077,600	3,076,685	(915)
Central services	728,100	725,600	715,414	(10,186)
Capital outlay	-	1,301,400	1,279,509	(21,891)
Community services	424,100	356,000	328,209	(27,791)
Debt service:				
Principal	370,000	370,000	370,000	-
Interest	59,800	58,000	58,947	947
Total expenditures	54,102,100	54,976,800	54,706,708	(270,092)
Other Financing Uses				
Transfers out	(764,800)	(777,600)	(765,600)	12,000
Interdistrict transfers	(96,100)	(110,000)	(79,279)	30,721
Total other financing uses	(860,900)	(887,600)	(844,879)	42,721
Net Change in Fund Balance	(977,800)	(730,400)	(319,866)	410,534
Fund Balance - July 1, 2005	8,866,470	9,206,262	9,206,262	-
Fund Balance - June 30, 2006	\$ 7,888,670	\$ 8,475,862	\$ 8,886,396	\$ 410,534

Other Supplemental Information

Lapeer Community Schools of Lapeer County

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds			Debt Service Fund			Permanent Funds				Total
	Cafeteria	Athletics	Corporate Development	Durant Bond	Lamoreaux Endowment	Taylor Endowment	Carpenter Endowment	Moore Music Endowment	Valley Endowment		
Assets											
Cash and investments	\$ 75,183	\$ 5,310	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,777	\$ -	\$ 127,270
Due from other funds	-	30,297	-	-	-	-	-	-	-	-	30,297
Receivables - Net - Due from other governmental units	145,738	-	-	-	-	-	-	-	-	-	145,738
Total assets	\$ 220,921	\$ 35,607	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,777	\$ -	\$ 303,305
Liabilities and Fund Balances											
Liabilities											
Accounts payable	\$ 76,518	\$ 27,052	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,570
Due to other funds	16,899	-	-	-	-	-	-	-	-	-	16,899
Total liabilities	93,417	27,052	-	-	-	-	-	-	-	-	120,469
Fund Balances - Unreserved - Undesignated, reported in Special Revenue Funds Permanent Funds	127,504	8,555	-	-	-	-	-	-	46,777	-	136,059
Total fund balances	127,504	8,555	-	-	-	-	-	-	46,777	-	182,836
Total liabilities and fund balances	\$ 220,921	\$ 35,607	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,777	\$ -	\$ 303,305

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, 2006

	Special Revenue Funds			Debt Service Fund			Permanent Funds					Total
	Cafeteria	Athletics	Corporate Development	Durant Bond	Lamoreaux Endowment	Taylor Endowment	Carpenter Endowment	Moore Music Endowment	Valley Endowment			
Revenue												
Local sources	\$ 1,189,099	\$ 324,233	\$ 129	\$ -	\$ 3,578	\$ 872	\$ 601	\$ 2,174	\$ 4,582	\$ 1,525,268		
State sources	170,081	-	-	56,415	-	-	-	-	-	226,496		
Federal sources	890,488	-	-	-	-	-	-	-	-	890,488		
Total revenue	2,249,668	324,233	129	56,415	3,578	872	601	2,174	4,582	2,642,252		
Expenditures												
Current:												
Food services	2,184,729	-	-	-	-	-	-	-	-	2,184,729		
Athletics	-	1,040,999	-	-	-	-	-	-	-	1,040,999		
Debt service:												
Principal	-	-	-	38,886	-	-	-	-	-	38,886		
Interest	-	-	-	17,529	-	-	-	-	-	17,529		
Capital outlay/other	27,506	40,352	-	-	-	-	-	-	-	67,858		
Total expenditures	2,212,235	1,081,351	-	56,415	-	-	-	-	-	3,350,001		
Excess (Deficiency) of Revenue Over Expenditures	37,433	(757,118)	129	-	3,578	872	601	2,174	4,582	(707,749)		
Other Financing Sources (Uses)												
Transfers in	-	765,600	-	-	-	-	-	-	-	765,600		
Transfers to Lapeer County Community Foundation	-	-	(3,926)	-	(114,430)	(26,317)	(39,697)	(66,003)	-	(250,373)		
Total other financing sources (uses)	-	765,600	(3,926)	-	(114,430)	(26,317)	(39,697)	(66,003)	-	515,227		
Net Change in Fund Balances	37,433	8,482	(3,797)	-	(110,852)	(25,445)	(39,096)	(63,829)	4,582	(192,522)		
Fund Balances - Beginning of year	90,071	73	3,797	-	110,852	25,445	39,096	63,829	42,195	375,358		
Fund Balances - End of year	\$ 127,504	\$ 8,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,777	\$ 182,836		

Lapeer Community Schools of Lapeer County

Other Supplemental Information Combining Statement of Net Assets Private Purpose Trust Funds

	<u>Hall</u> <u>Endowment</u>	<u>Seaton</u> <u>Endowment</u>	<u>Kuhlman/</u> <u>Curtiss</u>	<u>Project</u> <u>Close-up</u>	<u>Beckwith</u>	<u>Total</u>
Assets - Cash and cash equivalents	<u>\$ 12,623</u>	<u>\$ 31,343</u>	<u>\$ -</u>	<u>\$ 7,993</u>	<u>\$ 6,572</u>	<u>\$58,531</u>
Net Assets - Reserved for endowment restrictions	<u>\$ 12,623</u>	<u>\$ 31,343</u>	<u>\$ -</u>	<u>\$ 7,993</u>	<u>\$ 6,572</u>	<u>\$58,531</u>

Lapeer Community Schools of Lapeer County

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets Private Purpose Trust Funds Year Ended June 30, 2006

	Hall Endowment	Seaton Endowment	Kuhlman/ Curtiss	Project Close-up	Beckwith	Total
Operating Revenue						
Interest and other	\$ 468	\$ 1,156	\$ 261	\$ 300	\$ 244	\$ 2,429
Donations	500	1,500	4,500	-	-	6,500
Total operating revenue	968	2,656	4,761	300	244	8,929
Scholarships, Other Expenses, and Transfers Out to Lapeer County Community Foundation	500	1,500	15,261	-	167	17,428
Change in Net Assets	468	1,156	(10,500)	300	77	(8,499)
Net Assets - Beginning of year	12,155	30,187	10,500	7,693	6,495	67,030
Net Assets - End of year	<u>\$ 12,623</u>	<u>\$ 31,343</u>	<u>\$ -</u>	<u>\$ 7,993</u>	<u>\$ 6,572</u>	<u>\$ 58,531</u>

Lapeer Community Schools of Lapeer County

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2006

June 30	Durant Bond		2005 Limited Tax School Building and Site Bonds		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2007	\$ 40,728	\$ 15,678	\$ -	\$ 97,500	\$ 40,728	\$ 113,178
2008	42,677	13,738	3,000,000	97,500	3,042,677	111,238
2009	44,710	11,706	-	-	44,710	11,706
2010	46,837	9,578	-	-	46,837	9,578
2011	194,158	7,348	-	-	194,158	7,348
2012	51,401	5,011	-	-	51,401	5,011
2013	53,847	2,564	-	-	53,847	2,564
Total	\$ 474,358	\$ 65,623	\$ 3,000,000	\$ 195,000	\$ 3,474,358	\$ 260,623

Principal payments due	May 15	May 1
Interest payments due	May 15	May 1/November 1
Interest rate	4.76%	3.25%
Original issue	\$803,366	\$3,000,000

