

**VILLAGE OF LAKE ORION
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2010**

VILLAGE OF LAKE ORION
For the Year Ended June 30, 2010
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For the Year Ended June 30, 2010

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Independent Auditor's Report

September 22, 2010

To the Members of the Village Council
Village of Lake Orion, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lake Orion, Michigan as of and for the year ended June 30, 2010, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Orion'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lake Orion as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Village Council
Village of Lake Orion, Michigan
September 22, 2010

The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lake Orion's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary 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.

Respectfully,

A handwritten signature in cursive script that reads "Post Smythe Lutz and Ziel of Plymouth". The signature is written in black ink on a white background.

Post, Smythe, Lutz and Ziel of Plymouth LLP
Certified Public Accountants



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Management's Discussion and Analysis

As management of the Village of Lake Orion, we offer readers of the Village of Lake Orion's financial statements this narrative overview and analysis of the financial activities of the Village of Lake Orion for the fiscal year ended June 30, 2010. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets of the Village of Lake Orion exceeded its liabilities at the close of the most recent fiscal year by \$11,349,230 (*net assets*). Of this amount, \$3,639,593 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Village's total net assets decreased by \$28,189.
- At the close of the most recent fiscal year, the Village of Lake Orion's governmental funds reported combined ending fund balances of \$1,274,151. Approximately 73 percent of this total amount, \$928,387 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$365,763, or 39 percent of total general fund expenditures before operating transfers.
- The Village of Lake Orion's total debt, including the DDA, decreased by \$1,433,749 (49 percent) during the current fiscal year due to the early payoff of a water revenue bond.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village of Lake Orion's basic financial statements, which have three components:

- 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village of Lake Orion's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village of Lake Orion's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Lake Orion is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village of Lake Orion that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village of Lake Orion include general government, public works, police, streets, debt service, capital improvements, and cemetery. The business-type activity of the Village of Lake Orion is the Water and Sewer Fund.

The government-wide financial statements include not only the Village of Lake Orion itself (known as the *primary government*), but also a legally separate Downtown Development Authority (DDA) district for which the Village of Lake Orion is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Lake Orion, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of Lake Orion can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the public works fund, and the police fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14-16 of this report.

Proprietary funds. The Village of Lake Orion maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village of Lake Orion uses an enterprise fund to account for its Water and Sewer operation.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund which is considered to be a major fund of the Village of Lake Orion.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Village of Lake Orion's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-42 of this report.

Government-wide Financial Analysis

Assets exceeded liabilities by \$11,349,230 at the close of the most recent fiscal year. Of the Village of Lake Orion's net assets, 66 percent reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village of Lake Orion uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Village of Lake Orion's Net Assets					
	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,449,831	\$ 1,487,244	\$ 3,194,781	\$ 4,117,902	\$ 4,644,612	\$ 5,605,146
Capital Assets	2,813,920	2,913,079	5,758,598	5,993,578	8,572,518	8,906,657
Total Assets	4,263,751	4,400,323	8,953,379	10,111,480	13,217,130	14,511,803
Long-term liabilities outstanding	1,097,720	1,107,096	428,272	1,545,449	1,525,992	2,652,545
Other liabilities	175,680	191,775	166,228	290,064	341,908	481,839
Total Liabilities	1,273,400	1,298,871	594,500	1,835,513	1,867,900	3,134,384
Net Assets:						
Invested in capital assets,						
net of related debt	2,115,623	2,078,079	5,343,598	4,361,401	7,459,221	6,439,480
Restricted	240,992	219,452	9,424	130,919	250,416	350,371
Unrestricted	633,736	803,921	3,005,857	3,783,647	3,639,593	4,587,568
Total Net Assets	\$ 2,990,351	\$ 3,101,452	\$ 8,358,879	\$ 8,275,967	\$ 11,349,230	\$ 11,377,419

At the end of the current fiscal year, the Village of Lake Orion is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Net assets decreased by \$28,189 during the current fiscal year.

Governmental activities. Governmental activities decreased net assets by \$111,101.

Village of Lake Orion - Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$ 646,665	\$ 707,188	\$ 1,088,278	\$ 1,104,451	\$ 1,734,943	\$ 1,811,639
Operating Grants & Contributions	448,923	460,762	-	-	448,923	460,762
Capital Grants & Contributions	18,072	76,858	39,089	13,479	57,161	90,337
General Revenues:						
Property Taxes	1,152,649	1,179,179	154,830	168,843	1,307,479	1,348,022
State Shared Revenues	202,010	230,008	-	-	202,010	230,008
Unrestricted Investment Earnings	15,468	35,513	43,047	97,800	58,515	133,313
Total Revenues	2,483,787	2,689,508	1,325,244	1,384,573	3,809,031	4,074,081
Expenses:						
General Government	692,942	691,599	-	-	692,942	691,599
Public Safety	916,784	898,396	-	-	916,784	898,396
Public Works	916,472	844,819	-	-	916,472	844,819
Health and Welfare	23,162	17,395	-	-	23,162	17,395
Community Development	69,807	74,008	-	-	69,807	74,008
Recreation and Cultural	40,464	44,978	-	-	40,464	44,978
Interest on Long-Term Debt	35,257	45,668	-	-	35,257	45,668
Water and Sewer	-	-	1,242,332	1,269,103	1,242,332	1,269,103
Total Expenses	2,694,888	2,616,863	1,242,332	1,269,103	3,937,220	3,885,966
Change in Net Assets						
before Transfers	(211,101)	72,645	82,912	115,470	(128,189)	188,115
Transfers	100,000	100,000	-	-	100,000	100,000
Change in Net Assets	\$ (111,101)	\$ 172,645	\$ 82,912	\$ 115,470	\$ (28,189)	\$ 288,115

Key elements of the net asset increase for Governmental activities (\$ rounded to thousands) are as follows:

Increases included:

- Reduction in long-term debt 129,000

Decreases included:

- Reduction interest revenue 17,000
- Reduction in State Shared revenue 28,000
- Increase in contractual services 8,000
- Reduction in Property Tax revenue 27,000
- Increase in engineering and construction fees 22,000
- Increase in post-employment benefit liability 119,000

Business-type activities. Business-type activities increased net assets by \$82,912. This increase is mostly due to an increase in service charges and various expense reductions.

Financial Analysis of the Government's Funds

As noted earlier, the Village of Lake Orion uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village of Lake Orion's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources.

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$1,274,151, approximately 73 percent of this total amount (\$928,387) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) for prepaid expenses (\$104,772), 2) to pay debt service (\$9,388), or 3) to generate income to pay for the perpetual care of the municipal cemetery (\$231,604).

Total governmental fund balances decreased \$21,318 for the 2009-2010 fiscal year as compared to an increase of \$70,401 in the 2008-2009 fiscal year.

The General Fund is the chief operating fund of the Village of Lake Orion. At the end of the current fiscal year, unreserved fund balance of the general fund was \$365,763, while total fund balance was \$444,622. Unreserved fund balance represents 39 percent of total general fund expenditures before operating transfers, while total fund balance represents 48 percent of that same amount. The fund balance of the Village of Lake Orion's General Fund decreased \$26,101 during the current fiscal year.

General Fund contributions support the Public Works Fund and the Police Fund. Thus an increase in those two fund balances would offset a reduced General Fund balance.

The Public Works Fund has a total fund balance of \$51,686; unreserved fund balance in the Public Works Fund was \$25,773. The total Public Works fund balance represents a decrease of \$45,450 in comparison with the prior year.

The Police Fund has a total fund balance of \$4,265, all of which was unreserved. The total Police fund balance represents a decrease of \$22,053 in comparison with the prior year. This decrease is mostly due to reduced General Fund contributions and reductions in OUIL/parking/penal fine revenues.

Proprietary funds. The Village of Lake Orion's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$3,005,857.

Although the Water and Sewer Fund had an operating loss of \$72,184 at year end, it also shows net income of \$82,912. The interest earnings of \$43,047 and tap fee revenues of \$39,089 are non-operating revenues which appear to offset the operating loss.

General Fund Budgetary Highlights

There was no change between the original budget and the final amended budget total in revenues and a \$41,683 increase in budgeted expenditures for the

General Fund. The adjustments were to account for the Neighborhood Stabilization Program expenditures and a potential increase in professional fees.

Capital Asset and Debt Administration

Capital assets. The Village of Lake Orion's investment in capital assets for its governmental and business type activities is \$8,572,518 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, machinery and equipment, park facilities, roads, and bridges. The change in the Village of Lake Orion's investment in capital assets for the current fiscal year was a 3 percent decrease for governmental activities, and a 1 percent decrease in business-type activities.

Major capital asset events during the current fiscal year included the following:

- | | |
|-----------------------|-----------|
| • Police vehicles | \$ 48,000 |
| • Meeks Park bridge | 2,000 |
| • Streetscape project | 125,000 |
| • Lawnmower | 10,000 |

Additional information on the Village of Lake Orion's capital assets can be found in note IV.B on pages 32-33 of this report.

Long-term debt.

At the end of the current fiscal year, the Village of Lake Orion had total bond debt outstanding of \$1,085,000. Of this amount, \$670,000 is governmental, \$415,000 is business-type. The Village of Lake Orion's total bond debt decreased by \$1,395,000 (56 percent) during the current fiscal year.

At the end of the current fiscal year, the Village of Lake Orion's Component Unit (DDA) had land contract debt outstanding of \$74,000. Principal of \$75,000 was paid during the current fiscal year.

The Village of Lake Orion continues to maintain a stable rating of "AA-" from Standard & Poor's in 2010 for bond debt.

Economic Factors and Future Budgets and Rates

Property taxes make up over 50 percent of our General Fund Revenue. Taxable values experienced a 4.4 percent decrease for 2009/2010.

The Village continues to pursue expense reductions to preserve financial strength. Cost reduction activities in 2009/2010 included the following:

- Freeze wages for non union and AFSCME union employees and eliminate one seasonal employee.
- Reduce one treasury employee position from full-time to fifteen hours per week.
- Reduce dry cleaning costs through purchase of washable police uniforms.
- Reduce ordinance enforcement labor costs.
- Continue to defer Capital Improvement purchases.

- Reduce heating and electric costs at DPW building.
- Eliminate most training, travel, and education expenses.
- Early payoff of water/sewer disposal system revenue bond, resulting in a savings of nearly \$240,000 in interest and fees over the next eight years.

Continual monitoring of costs and implementing further reductions is planned due to possible future expense increases and revenue reductions including:

- Yearly funding for our retiree health care liability.
- Local economic conditions will most likely result in further property tax revenue reductions in future years.
- Further decreases in State Shared Revenue funding.

The Village purchases its water from Orion Township (City of Detroit water) and its sewer services from the City of Detroit through Oakland County. The operations of the Water and Sewer Fund resulted in an operating loss of \$72,184. The operating loss was offset by interest earnings and tap fee revenue. The Village continues to analyze the possible need for a change to the water/sewer rate structure.

Beginning in the spring of 2011, the Downtown Development Authority will undertake a Streetscape and Children's Park improvement project. The Village has authorized an amount of up to \$1,200,000 be loaned to the DDA from the Water/Sewer Fund. The loan will be made by transfers in incremental amounts as necessary for payment by the DDA of its financial obligations for the improvements. All loan amounts transferred will bear interest at the simple annual interest rate of two percent from the date of transfer until full repayment.

Requests for Information

This financial report is designed to provide a general overview of the Village of Lake Orion's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 37 E. Flint Street, Lake Orion, Michigan 48362.

BASIC FINANCIAL STATEMENTS

VILLAGE OF LAKE ORION
Statement of Net Assets
June 30, 2010

	Primary Government			Component
	Governmental	Business-type	Total	Unit -
	Activities	Activities		DDA
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,121,836	\$ 2,835,085	\$ 3,956,921	\$ 368,957
Receivables (net of allowance for uncollectibles)	166,186	336,565	502,751	3,355
Due from Other Governmental Units	23,431	-	23,431	-
Inventory	-	13,707	13,707	-
Prepaid Expenditures	138,378	-	138,378	9,045
Restricted Assets - Cash and Cash Equivalents	-	9,424	9,424	-
Capital Assets (net of accumulated depreciation)	2,813,920	5,758,598	8,572,518	1,668,132
Total Assets	<u>4,263,751</u>	<u>8,953,379</u>	<u>13,217,130</u>	<u>2,049,489</u>
<u>LIABILITIES</u>				
Accounts Payable	51,563	156,756	208,319	17,501
Accrued Liabilities	32,401	-	32,401	-
Deferred Revenue	91,716	5,835	97,551	2,122
Liabilities payable from restricted assets	-	3,637	3,637	-
Noncurrent Liabilities:				
Other Post Employment Benefit Liability	119,373	-	119,373	-
Due within one year	198,730	140,586	339,316	74,000
Due in more than one year	779,617	287,686	1,067,303	-
Total Liabilities	<u>1,273,400</u>	<u>594,500</u>	<u>1,867,900</u>	<u>93,623</u>
<u>NET ASSETS</u>				
Invested in Capital Assets, net of related debt	2,115,623	5,343,598	7,459,221	1,594,132
Restricted for:				
Debt Service	9,388	9,424	18,812	-
Perpetual Care	231,604	-	231,604	-
Unrestricted	633,736	3,005,857	3,639,593	361,734
Total Net Assets	<u>\$ 2,990,351</u>	<u>\$ 8,358,879</u>	<u>\$ 11,349,230</u>	<u>\$ 1,955,866</u>

VILLAGE OF LAKE ORION
Statement of Activities
For the Year Ended June 30, 2010

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	\$ 692,942	\$ 315,597	\$ -	\$ -
Public Safety	916,784	146,715	294,021	-
Public Works	916,472	164,620	143,065	-
Health and Welfare	23,162	-	11,837	18,072
Community Development	69,807	11,330	-	-
Recreation and Cultural	40,464	8,403	-	-
Interest on Long-Term Debt	35,257	-	-	-
Total Governmental Activities	<u>2,694,888</u>	<u>646,665</u>	<u>448,923</u>	<u>18,072</u>
Business-type Activities:				
Water and Sewer	<u>1,242,332</u>	<u>1,088,278</u>	<u>-</u>	<u>39,089</u>
Total Primary Government	\$ <u>3,937,220</u>	\$ <u>1,734,943</u>	\$ <u>448,923</u>	\$ <u>57,161</u>
Component Units	\$ <u>478,936</u>	\$ <u>45,947</u>	\$ <u>75,722</u>	\$ <u>-</u>

General Revenues:
Property Taxes
State Shared Revenue
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers

Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
Governmental Activities	Business-type Activities	Total	Unit - DDA
\$ (377,345)	\$ -	\$ (377,345)	\$ -
(476,048)	-	(476,048)	-
(608,787)	-	(608,787)	-
6,747	-	6,747	-
(58,477)	-	(58,477)	-
(32,061)	-	(32,061)	-
(35,257)	-	(35,257)	-
<u>(1,581,228)</u>	<u>-</u>	<u>(1,581,228)</u>	<u>-</u>
-	(114,965)	(114,965)	-
<u>(1,581,228)</u>	<u>(114,965)</u>	<u>(1,696,193)</u>	<u>-</u>
-	-	-	(357,267)
1,152,649	154,830	1,307,479	654,810
202,010	-	202,010	-
15,468	43,047	58,515	4,288
100,000	-	100,000	(100,000)
<u>1,470,127</u>	<u>197,877</u>	<u>1,668,004</u>	<u>559,098</u>
(111,101)	82,912	(28,189)	201,831
<u>3,101,452</u>	<u>8,275,967</u>	<u>11,377,419</u>	<u>1,754,035</u>
\$ <u><u>2,990,351</u></u>	\$ <u><u>8,358,879</u></u>	\$ <u><u>11,349,230</u></u>	\$ <u><u>1,955,866</u></u>

VILLAGE OF LAKE ORION
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>Public Works</u>	<u>Police</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 316,987	\$ 53,124	\$ -	\$ 751,725	\$ 1,121,836
Receivables (net of allowance for uncollectibles)	88,447	-	77,631	108	166,186
Due from State	-	-	-	23,431	23,431
Prepaid Expenditures	<u>78,859</u>	<u>25,913</u>	<u>33,606</u>	<u>-</u>	<u>138,378</u>
Total Assets	\$ <u>484,293</u>	\$ <u>79,037</u>	\$ <u>111,237</u>	\$ <u>775,264</u>	\$ <u>1,449,831</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts Payable	\$ 33,378	\$ 4,957	\$ 11,542	\$ 1,686	\$ 51,563
Accrued and Other Liabilities	5,707	22,394	4,300	-	32,401
Deferred Revenue	<u>586</u>	<u>-</u>	<u>91,130</u>	<u>-</u>	<u>91,716</u>
Total Liabilities	<u>39,671</u>	<u>27,351</u>	<u>106,972</u>	<u>1,686</u>	<u>175,680</u>
Fund Balances:					
Reserved for:					
Perpetual Care	-	-	-	231,604	231,604
Prepays	78,859	25,913	-	-	104,772
Debt Service	-	-	-	9,388	9,388
Unreserved, reported in:					
General Fund	365,763	-	-	-	365,763
Special Revenue Funds	-	25,773	4,265	162,266	192,304
Capital Projects Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>370,320</u>	<u>370,320</u>
Total Fund Balance	<u>444,622</u>	<u>51,686</u>	<u>4,265</u>	<u>773,578</u>	<u>1,274,151</u>
Total Liabilities and Fund Balance	\$ <u>484,293</u>	\$ <u>79,037</u>	\$ <u>111,237</u>	\$ <u>775,264</u>	

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, therefore, are not reported in the funds.	2,813,920
Other Post Employment Benefit Liability	(119,373)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(978,347)</u>
Net Assets of Governmental Activities	\$ <u>2,990,351</u>

VILLAGE OF LAKE ORION
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

	<u>General</u>	<u>Public Works</u>	<u>Police</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
Property Taxes	\$ 963,423	\$ -	\$ -	\$ 189,226	\$ 1,152,649
Intergovernmental:					
Federal, State and Local	231,919	-	294,021	143,065	669,005
Charges for Services	177,768	164,620	-	-	342,388
Fines and Forfeitures	-	-	53,752	-	53,752
Interest	10,840	241	21	4,366	15,468
Other	140,405	-	92,963	17,157	250,525
Total Revenues	<u>1,524,355</u>	<u>164,861</u>	<u>440,757</u>	<u>353,814</u>	<u>2,483,787</u>
<u>Expenditures</u>					
Current:					
General Government	554,243	-	-	-	554,243
Public Safety	-	-	826,733	-	826,733
Public Works	188,533	430,511	-	190,563	809,607
Health and Welfare	23,162	-	-	-	23,162
Community Development	69,807	-	-	-	69,807
Recreation and Cultural	31,262	-	-	-	31,262
Other Functions	59,249	-	-	561	59,810
Debt Service:					
Principal	-	-	15,456	165,000	180,456
Interest and Other Charges	-	-	-	35,257	35,257
Capital Outlay	-	-	48,374	10,147	58,521
Total Expenditures	<u>926,256</u>	<u>430,511</u>	<u>890,563</u>	<u>401,528</u>	<u>2,648,858</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>598,099</u>	<u>(265,650)</u>	<u>(449,806)</u>	<u>(47,714)</u>	<u>(165,071)</u>
<u>Other Financing Sources (Uses)</u>					
Loan Proceeds	-	-	43,753	-	43,753
Transfers In	-	220,200	384,000	47,000	651,200
Transfers Out	(624,200)	-	-	(27,000)	(651,200)
Transfer In - Component Unit	-	-	-	100,000	100,000
Total Other Financing Sources (Uses)	<u>(624,200)</u>	<u>220,200</u>	<u>427,753</u>	<u>120,000</u>	<u>143,753</u>
Net Change in Fund Balance	(26,101)	(45,450)	(22,053)	72,286	(21,318)
Fund Balance - Beginning	<u>470,723</u>	<u>97,136</u>	<u>26,318</u>	<u>701,292</u>	<u>1,295,469</u>
Fund Balance - Ending	<u>\$ 444,622</u>	<u>\$ 51,686</u>	<u>\$ 4,265</u>	<u>\$ 773,578</u>	<u>\$ 1,274,151</u>

VILLAGE OF LAKE ORION
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balance - total governmental funds	\$ (21,318)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	58,521
Depreciation Expense	(154,824)
Loss on Sale of Assets	(2,856)

Change in Other Post Employment Benefit Liability	(119,373)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

128,749

Change in net assets in governmental activities	\$ <u><u>(111,101)</u></u>
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VILLAGE OF LAKE ORION

Balance Sheet
Proprietary Fund
June 30, 2010

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 2,835,085
Accounts Receivable	336,565
Inventory	<u>13,707</u>
Total Current Assets	<u>3,185,357</u>
 Restricted Assets - Cash	 <u>9,424</u>
 Property, Plant and Equipment	 11,176,857
Less: Accumulated Depreciation	<u>(5,418,259)</u>
Net Property, Plant and Equipment	<u>5,758,598</u>
 Total Assets	 \$ <u><u>8,953,379</u></u>
<u>LIABILITIES AND EQUITY</u>	
Current Liabilities:	
Accounts Payable	\$ 156,756
Compensated Absences Payable	586
Deferred Revenue	5,835
General Obligation Bonds Payable	<u>140,000</u>
Total Current Liabilities	<u>303,177</u>
 Current Liabilities Payable from Restricted Assets:	
Accrued Interest Payable	 <u>3,637</u>
 Long-Term Liabilities:	
Compensated Absences Payable	12,686
General Obligation Bonds Payable	<u>275,000</u>
Total Long-Term Liabilities	<u>287,686</u>
 Total Liabilities	 <u>594,500</u>
 Equity:	
Invested in Capital Assets, Net of Related Debt	5,343,598
Restricted for Debt Service	9,424
Unrestricted	<u>3,005,857</u>
Total Equity	<u>8,358,879</u>
 Total Liabilities and Equity	 \$ <u><u>8,953,379</u></u>

VILLAGE OF LAKE ORION
Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Fund
For the Year Ended June 30, 2010

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
<u>Operating Revenues:</u>	
Charges for Services	\$ 1,067,667
Penalty Charges	18,146
Miscellaneous	<u>2,465</u>
Total Operating Revenues	<u>1,088,278</u>
<u>Operating Expenses:</u>	
Salaries and Fringe Benefits	52,160
Water Purchases	279,513
Sewage Treatment	458,616
General and Administrative	78,282
Supplies	10,542
Contract Services	3,053
Equipment Repairs & Rentals	43,316
Depreciation and Amortization	<u>234,980</u>
Total Operating Expenses	<u>1,160,462</u>
Operating Income (Loss)	<u>(72,184)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Property Taxes	154,830
Interest Earned	43,047
Interest Expense and Related Fees	<u>(81,870)</u>
Total Non-Operating Revenues (Expenses)	<u>116,007</u>
Income before Contributions and Transfers	43,823
Capital Contributions - Tap Fees	<u>39,089</u>
Net Income (Loss)	82,912
Fund Equity, Beginning	<u>8,275,967</u>
Fund Equity, Ending	<u>\$ 8,358,879</u>

VILLAGE OF LAKE ORION
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2010

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers and users	\$ 1,091,138
Payments to Suppliers	(898,163)
Payments to Employees	(52,160)
Net Cash Provided by Operating Activities	<u>140,815</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Property Taxes Levied	<u>154,830</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Capital Contributions	39,089
Principal Paid on Capital Debt	(1,230,000)
Interest Paid on Capital Debt	(69,047)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,259,958)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Earned	<u>43,047</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(921,266)
Cash and Cash Equivalents, Beginning	<u>3,765,775</u>
Cash and Cash Equivalents, Ending	\$ <u><u>2,844,509</u></u>
Balance Sheet Classification of Cash and Cash Equivalents:	
Cash and Cash Equivalents	\$ 2,835,085
Restricted Assets	9,424
Total	\$ <u><u>2,844,509</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>	
Operating Income (Loss)	\$ (72,184)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization Expense	234,980
(Increase) Decrease in Receivables	1,855
Increase (Decrease) in Accounts Payable	(19,296)
Increase (Decrease) in Accrued Interest Payable	(5,545)
Increase (Decrease) in Deferred Revenue	1,005
Net Cash Provided by Operating Activities	\$ <u><u>140,815</u></u>

VILLAGE OF LAKE ORION
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Employee Retirement Trust</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 16	\$ 133,023
Investments, at fair value:		
Mutual Funds	<u>9,066</u>	<u>-</u>
Total Assets	<u>9,082</u>	<u>133,023</u>
<u>LIABILITIES</u>		
Due to Other	<u>-</u>	<u>133,023</u>
<u>NET ASSETS</u>		
Held in Trust for Retirement Benefits	\$ <u>9,082</u>	\$ <u>-</u>

VILLAGE OF LAKE ORION
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Employee Retirement Trust</u>
Additions:	
Contributions:	
Employer	\$ 10,000
Investment Earnings:	
Net decrease in fair value of investments	<u>(918)</u>
Total Additions	<u>9,082</u>
Change in Net Assets	9,082
Net Assets - Beginning of Year	<u>-</u>
Net Assets - End of Year	\$ <u>9,082</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Lake Orion, Michigan, was incorporated in 1859. The Village operates under an elected Village Council, with a full-time Village Manager appointed by the Council to carry out the policies that it establishes. Services are provided to approximately 2,700 residents in the areas of police, refuse removal, parks and recreation, road construction, lighting, maintenance, and water and sewer.

As required by generally accepted accounting principles, these financial statements present the Village of Lake Orion and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Downtown Development Authority

The Village of Lake Orion Downtown Development Authority (DDA) was established to promote economic growth and revitalization of the Village's business district. The DDA Board is appointed by the Village Council and the annual operating budget and any modifications require the approval of the Village Council. The DDA has a June 30 fiscal year end.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are 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, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Governmental Funds

The Village reports the following major governmental funds:

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

The Public Works Fund is a special revenue fund used to account for the activity of the Department of Public Works, including cemetery operations.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Police Fund is a special revenue fund used to account for the revenues and expenditures of the police department.

In addition, the Village reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project fund is used to account for the financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds.)

Permanent funds are used to report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. This includes the perpetual care fund for the municipal cemetery.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the enterprise fund types.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Village Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Village has one enterprise fund, which is the Water and Sewer Fund.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Village to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the Village, as well as for its component units, are recorded at fair value.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2010.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Assets of the Water and Sewer Fund have been restricted for debt service payments which are to be funded out of bond proceeds and as required by other agreements.

Retained earnings have been reserved for property taxes levied for debt retirement. Retained earnings have not been reserved for the restricted assets resulting from the issuance of debt and the receipt of contributed capital.

Restricted assets at June 30, 2010 consist of the following:

General Obligation Bonds Debt Retirement	<u>\$ 9,424</u>
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VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of capitalized value of the assets constructed. Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	10-50
Buildings	40
Street and Road Improvements	50
Equipment	5-10
Vehicles	5-10

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Village and the Village's internal policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. This liability is composed of employees who retire and any unused vacation paid upon termination of employment.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

7. Long-term Obligations – Continued

as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. 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 a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$978,347 difference are as follows:

General Obligation Bonds Payable	\$ 670,000
Installment Notes Payable	28,297
Compensated Absences Payable	<u>280,050</u>
	<u>\$ 978,347</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this \$128,749 difference are as follows:

Compensated Absences	\$ (7,954)
Installment Note Proceeds	(43,753)
Principal Repayments:	
General Obligation Bonds	165,000
Installment Notes	<u>15,456</u>
	<u>\$ 128,749</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Village is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

A. Budgetary Information – Continued

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Village Charter requires two regular council meetings per month. By the second meeting in April, a proposed operating budget must be submitted to the Village Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the second meeting in May.
3. On or before June 15, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The Village Council may authorize supplemental appropriations (budget amendments) during the year. In 2010, several budget amendments were made and are reflected in the financial statements.

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

None of the funds have a deficit fund balance as of June 30, 2010.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budgets for the General and Special Revenue Funds are adopted at the activity level; expenditures in excess of budget appropriations are as follows:

	Final Budget	Actual	Excess Expenditures Over Appropriations
General Fund:			
Street Lighting	\$ 31,000	\$33,409	\$ 2,409

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the Village is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the Village's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the Village's deposits may not be recovered. Neither State law nor the Village's investment policy requires consideration of custodial credit risk. As of June 30, 2010, the Village's book balance of its deposits was \$4,098,909; the total book balance was \$4,099,384, due to \$475 in cash on hand. The bank balance was \$4,189,059 which was exposed to custodial credit risk, as follows:

	<u>Bank</u> <u>Balance</u>
Insured by F.D.I.C.	\$2,286,813
Uninsured and Uncollateralized	<u>1,902,246</u>
Total	<u>\$4,189,059</u>

A reconciliation of cash for the primary government follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$3,956,921
Restricted Assets-Statement of Net Assets	9,424
Statement of Fiduciary Net Assets	<u>133,039</u>
Total	<u>\$4,099,384</u>

At June 30, 2010, the carrying amount and bank balances of the component units of the Village of Lake Orion are as follows:

	<u>Carrying</u> <u>Amount</u>	<u>Bank</u> <u>Balance</u>	<u>FDIC</u> <u>Insured</u>
Downtown Development Authority	<u>\$368,957</u>	<u>\$368,957</u>	<u>\$250,000</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices.

Interest Rate Risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Villages deposits and investments, including the Downtown Development Authority, consisted of the following:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Primary Government:		
Savings and Checking Accounts	\$ 2,406,383	Demand
Pooled Investments(Share price=\$1)	201,633	Demand
Certificates of Deposits- Less than one year	<u>1,950,000</u>	342 days
	<u>\$ 4,558,016</u>	
Trust Funds:		
Mutual Funds – Bonds	\$ 3,305	N/A
Mutual Funds – Equity	<u>5,761</u>	N/A
	<u>\$ 9,066</u>	

Concentration of Credit Risk. The Village's investment policy places no limit on the amount the Village may invest in any one issuer.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 498,484	\$ -	\$ -	\$ 498,484
Capital Assets, being depreciated:				
Land Improvements	405,875	-	-	405,875
Street and Road Improvements	1,999,507	-	-	1,999,507
Building and Improvements	897,891	-	-	897,891
Machinery and Equipment	421,468	10,147	-	431,615
Vehicles	549,704	48,374	(94,105)	503,973
	<u>4,274,445</u>	<u>58,521</u>	<u>(94,105)</u>	<u>4,238,861</u>
Less: Accumulated Depreciation:				
Land Improvements	(142,118)	(26,520)	-	(168,638)
Street and Road Improvements	(405,975)	(39,990)	-	(445,965)
Building and Improvements	(595,749)	(24,096)	-	(619,845)
Machinery and Equipment	(292,831)	(36,172)	-	(329,003)
Vehicles	(423,177)	(28,046)	91,249	(359,974)
	<u>(1,859,850)</u>	<u>(154,824)</u>	<u>91,249</u>	<u>(1,923,425)</u>
Governmental Activities Capital Assets, net	\$ <u>2,913,079</u>	\$ <u>(96,303)</u>	\$ <u>(2,856)</u>	\$ <u>2,813,920</u>

Depreciation expense was charged on the Statement of Activities as follows:

General Government	\$ 40,935
Public Safety	37,195
Public Works	67,492
Recreation and Cultural	9,202
	<u>\$ 154,824</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, being depreciated:				
Water and Sewer Mains	\$ 10,081,942	\$ -	\$ -	\$ 10,081,942
Equipment	194,202	-	-	194,202
Intangible Assets-Water Lines	900,713	-	-	900,713
	<u>11,176,857</u>	<u>-</u>	<u>-</u>	<u>11,176,857</u>
Less: Accumulated Depreciation:				
Water and Sewer Mains	(4,683,670)	(199,083)	-	(4,882,753)
Equipment	(161,841)	(13,379)	-	(175,220)
Intangible Assets-Water Lines	(337,768)	(22,518)	-	(360,286)
	<u>(5,183,279)</u>	<u>(234,980)</u>	<u>-</u>	<u>(5,418,259)</u>
Business-type Activities				
Capital Assets, net	<u>\$ 5,993,578</u>	<u>\$ (234,980)</u>	<u>\$ -</u>	<u>\$ 5,758,598</u>

<u>Component Unit-DDA:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, being depreciated:				
Land Improvements	\$ 564,561	\$ 2,242	\$ -	\$ 566,803
Street and Road Improvements	1,155,930	124,860	-	1,280,790
Building and Improvements	499,000	-	-	499,000
Equipment	11,771	-	-	11,771
	<u>2,231,262</u>	<u>127,102</u>	<u>-</u>	<u>2,358,364</u>
Less: Accumulated Depreciation:				
Land Improvements	(362,511)	(20,169)	-	(382,680)
Street and Road Improvements	(219,853)	(36,079)	-	(255,932)
Building and Improvements	(31,188)	(12,475)	-	(43,663)
Equipment	(5,887)	(2,070)	-	(7,957)
	<u>(619,439)</u>	<u>(70,793)</u>	<u>-</u>	<u>(690,232)</u>
Component Unit				
Capital Assets, net	<u>\$ 1,611,823</u>	<u>\$ 56,309</u>	<u>\$ -</u>	<u>\$ 1,668,132</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

The composition of interfund transfers as of June 30, 2010, is as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Public Works Fund	General Fund	\$ 220,200
Police Fund	General Fund	384,000
Local Street Fund	General Fund	20,000
Local Street Fund	Major Street Fund	12,000
North Shore Bridge Debt	Local Street Fund	15,000
		<u>\$ 651,200</u>

Transfers represent the following:

Local Street Fund transferred to debt fund to make annual debt service payments.

All other transfers are operating transfers to fund operations and capital projects in the current year.

D. Long-Term Debt

The following is a summary of long-term debt transactions of the Village for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Add: Additional Debt Incurred</u>	<u>Less: Retirements and Payments on Debt</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 720,000	\$ -	\$ 155,000	\$ 565,000	\$175,000
MTF Bonds	115,000	-	10,000	105,000	10,000
Installment Purchase	-	43,753	15,456	28,297	13,730
Compensated Absences	272,096	7,954	-	280,050	-
Total Governmental Activities	<u>1,107,096</u>	<u>51,707</u>	<u>180,456</u>	<u>978,347</u>	<u>198,730</u>
Business-type Activities:					
Revenue Bonds	1,095,000	-	1,095,000	-	-
G.O. Refunding Bonds	550,000	-	135,000	415,000	140,000
Compensated Absences	13,272	-	-	13,272	-
Total Business-type Activities	<u>1,658,272</u>	<u>-</u>	<u>1,230,000</u>	<u>428,272</u>	<u>140,000</u>
Total	<u>\$2,765,368</u>	<u>\$ 51,707</u>	<u>\$ 1,410,456</u>	<u>\$1,406,619</u>	<u>\$338,730</u>
Component Unit - DDA:					
Land Contract	<u>\$ 149,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 74,000</u>	<u>\$ 74,000</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the Village as of June 30, 2010:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Governmental Activities:				
General Oblig. Bonds	1	4.70-4.85%	2012	\$ 565,000
MTF Bonds	1	5.00%	2017	105,000
Installment Purchase	1	5.00%	2012	28,297
				<u>\$ 698,297</u>
Business-type Activities:				
G.O. Refunding Bonds	1	3.20-3.63%	2013	<u>\$ 415,000</u>
Component Unit:				
DDA Land Contract	1	6.00%	2011	<u>\$ 74,000</u>

The annual debt service requirements to maturity for general obligation debt outstanding as of June 30, 2010 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 198,730	\$ 29,909	\$ 140,000	\$ 14,627
2012	214,567	19,899	135,000	9,867
2013	210,000	9,100	140,000	5,075
2014	15,000	3,750	-	-
2015	15,000	3,000	-	-
2016	15,000	2,250	-	-
2017	15,000	1,500	-	-
2018	15,000	750	-	-
	<u>\$ 698,297</u>	<u>\$ 70,158</u>	<u>\$ 415,000</u>	<u>\$ 29,569</u>

<u>Year Ended</u>	<u>Component Unit - DDA</u>	
	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 74,000</u>	<u>\$ 1,850</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2010, is presented below:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Fund</u>
Reserved for:					
Perpetual Care	\$ -	\$ -	\$ -	\$ -	\$ 231,604
Prepaid Expenditures	78,859	25,913	-	-	-
Debt Service	-	-	9,388	-	-
Total Reserved	<u>78,859</u>	<u>25,913</u>	<u>9,388</u>	<u>-</u>	<u>231,604</u>
Unreserved:					
Designated for					
Subsequent Year's					
Expenditures	69,436	80,123	-	-	-
Undesignated	<u>296,327</u>	<u>112,181</u>	<u>-</u>	<u>370,320</u>	<u>-</u>
Total Fund Balance	<u>\$ 444,622</u>	<u>\$ 218,217</u>	<u>\$ 9,388</u>	<u>\$ 370,320</u>	<u>\$ 231,604</u>

F. Property Taxes

Property tax assessments are determined (Tax Day) as of each December 31. Taxes are levied on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county delinquent tax roll. The Village bills and collects its own property taxes which are accounted for in the General Fund, Downtown Development Authority Fund, 1998 G.O. Bond Debt Fund, and Water and Sewer Fund. Village property tax revenues are recognized in the current year as revenue in accordance with guidelines of the State of Michigan.

The Village is permitted by State law to levy taxes up to \$20 per \$1,000 of equalized valuation for general governmental services. The following is a summary of the tax rates levied on the 2009 tax roll:

<u>Purpose</u>	<u>Authorization</u>	<u>Authorized Rate</u>	<u>Per \$1,000 of State Equalized Value</u>		
			<u>Authorized Rate Post "Roll Back"</u>	<u>Rate Levied</u>	<u>Tax Margin</u>
Operating	State Law	20.00	12.0923	9.8000	2.2923
Debt	Voted	-	-	.9991	-
Debt	Voted	-	-	1.4564	-

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

IV. DETAILED NOTES ON ALL FUNDS – Continued

F. Property Taxes – Continued

Under terms of an agreement with the Charter Township of Orion, the Township remits to the Village the equivalent of two mills (as rolled back by State law) of property taxes, which represents a special-voted tax levied on all Township residents (including Village residents) for police services. In accordance with the agreement, the Village will decrease its tax levy by an equal amount. The December 1, 2009 Township tax levy is paid by residents through February 2010. The Township remits its payment to the Village through June 2010, which will be used to replace the July 1, 2010 tax levy.

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The Village contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers substantially all full time employees of the Village. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2009.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's collective bargaining units and personnel policy. The Village is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2007 as follows:

General - Union	9.23%
General Non-Union	14.76%
Police	7.19%
Police-Dispatchers**	\$1,238 per month

**No longer includes active employees.

c. Annual Pension Cost

During the fiscal year ended June 30, 2010, the Village's contributions totaling \$69,506 along with \$29,718 of employee contributions were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2007. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information

<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Valuation</u> <u>Date</u> <u>Dec. 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2008	2005	\$ 114,137	100%	\$-0-
2009	2006	100,373	100%	-0-
2010	2007	69,506	100%	-0-

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Defined Contribution Pension Plan

Effective for all employees hired after November 1, 2008, the Village has established a defined contribution pension plan with the Michigan Municipal Employees' Retirement System (MERS). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Village contributes 7% of the employees' gross earnings, and the employees are required to contribute 5%. Employer contributions become vested 25% at 3 years, 50% at 5 years, and 100% at 6 years of service. The Village's contribution for the current year was \$16,881.

As established by contract approved by the Village Council, the Village contributes to a deferred compensation plan administered by I.C.M.A. for the Village Manager. Voluntary contributions made by participants and employer contributions vest immediately as provided by the plan. The Village contributes an amount equal to 9% of the employee's gross earnings. During the current fiscal year the Village's contributions amounted to \$5,850.

3. Post Retirement Health Care Benefits

Change in Accounting – The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) and related liabilities and note disclosures in other plans in which the Village participates. GASB Statement No. 45 was effective for the Village for the fiscal year beginning July 1, 2009. Current year expenses include the current year "pay-as-you-go" amount and the recognition of the unfunded current year actuarial recommended contribution (ARC) in the governmental activities. This change had no impact on beginning net assets. The changes in financial reporting as a result of this statement are outlined below.

Plan Description – The Village provides health care benefits to eight retirees in accordance with their respective labor contracts. The Village includes these retirees and their dependents in its insured health care plan, with four having no contribution required by the participants and four that have 25% contribution requirements. Expenditures for post employment health care benefits are recognized as the insurance premiums become due. During the year, this amounted to \$99,422, net of participant contributions.

Funding Policy – The Village has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

3. Post Retirement Health Care Benefits – Continued

Funding Progress – For the year ended June 30, 2010, the Village has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The computed contribution and actual funding are summarized as follows:

Annual Required Contribution (recommended)	\$ 228,795
Interest on the prior year's net OPEB obligation	-
Less adjustment to the annual required contribution	-
Annual OPEB Cost	<u>228,795</u>
Amounts Contributed:	
Payments of current premiums	(99,422)
Advance funding	<u>(10,000)</u>
Increase(Decrease) in net OPEB obligation	119,373
OPEB obligation - Beginning of Year	-
OPEB obligation - End of Year	<u><u>\$ 119,373</u></u>

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of July 1, 2009:

Actuarial Value of Assets	\$ 139,944
Actuarial Accrued Liability (AAL)	2,582,191
Unfunded AAL (UAAL)	2,442,247
Funded Ratio	5.42%
Ratio of UAAL to covered payroll	Not available

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

3. Post Retirement Health Care Benefits – Continued

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return. The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years.

B. Risk Management

The Village of Lake Orion is a member of the Michigan Municipal Liability and Property Pool for its general liability insurance coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The Village pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the Village of Lake Orion and the pools to which it belongs in any of the past three fiscal years.

C. Joint Venture

North Oakland Transportation Authority

The Authority provides transportation services for the following six entities, the Charter Township of Oxford, the Charter Township of Orion, the Township of Addison, the Village of Lake Orion, the Village of Leonard and the Village of Oxford. The Authority's board consists of nine members of which the Village of Lake Orion appoints one. The North Oakland Transportation Authority is not considered a part of the reporting entity of the Village of Lake Orion. Separate financial statements of the joint venture may be obtained at North Oakland Transportation Authority, 720 James Hunt Dr., PO Box 96, Oxford, Michigan 48371.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2010

V. OTHER INFORMATION – Continued

D. Subsequent Events

1. In July 2010, the Oakland-Macomb Interceptor Drain Drainage Board has assessed the Village of Lake Orion, along with other communities within the drainage district, for the maintenance and rehabilitation of the Oakland-Macomb Interceptor Drain, under the provisions of the Michigan Drain Code, Public Act 40 of 1956, Section 526. Bonds were issued in the amount of \$26,076,000, Series 2010A, maturing in 2031 with an interest rate of 2.50% and \$6,731,484.20, Series 2010B, maturing in 2030 with interest rates of 1.15-5.90%. The Village of Lake Orion's portion of .6612% of the total debt is \$127,921 with the first debt payment due on October 1, 2010.
2. Beginning in the spring of 2011, the Downtown Development Authority will undertake a Streetscape and Children's Park improvement project. The Village has authorized an amount of up to \$1,200,000 be loaned to the DDA from the Water/Sewer Fund. The loan will be made by transfers in incremental amounts as necessary for payment by the DDA of its financial obligations for the improvements. All loan amounts transferred will bear interest at the simple annual interest rate of two percent from the date of transfer until full repayment. Repayment will be made in 10 annual installments commencing October 1, 2011 through 2020.

E. Upcoming Accounting Pronouncement

The Governmental Accounting Standards Board has recently issued a new pronouncement, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. GASB Statement No. 54 eliminates the terms "reserved" and "designated" fund balance, and replaces them with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The Village is currently evaluating the impact that this standard will have on the Village's financial statements. The new standard is effective beginning with the Village's fiscal year ended June 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LAKE ORION
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2010

Required Supplementary Information for GASB 27

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/95	\$1,786,206	\$1,951,491	\$165,285	92%	\$583,606	28%
12/31/96	1,921,965	2,148,582	226,617	89	592,929	38
12/31/97	2,084,296	2,253,909	169,613	92	603,062	28
12/31/98	2,294,440	2,296,960	2,520	100	628,208	-0-
12/31/99	2,619,818	2,446,538	(173,280)	107	682,067	-0-
12/31/00	2,863,422	2,681,729	(181,693)	107	682,298	-0-
12/31/01	2,987,853	3,293,592	305,739	91	611,424	50
12/31/02	2,897,735	3,531,780	634,045	82	711,796	89
12/31/03	2,917,657	3,635,754	718,097	80	745,628	96
12/31/04	2,942,036	3,697,534	755,498	80	709,702	106
12/31/05	2,976,858	3,828,505	851,647	78	797,523	107
12/31/06	3,073,182	3,889,352	816,170	79	826,567	99
12/31/07	3,207,644	3,931,902	754,258	81	905,082	83
12/31/08	3,249,279	3,946,549	697,270	82	834,509	84
12/31/09	3,079,721	3,943,132	863,411	78	659,155	131

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2009 the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	
Includes inflation at 2.0%	4.5 - 12.9%
Cost of living adjustments	None

VILLAGE OF LAKE ORION
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<u>Revenues:</u>				
Property Taxes	\$ 924,000	\$ 924,000	\$ 924,442	\$ 442
Penalties and Interest	14,000	14,000	14,227	227
In Lieu of Taxes	24,500	24,500	24,754	254
Intergovernmental - Federal/CDBG	6,817	6,817	11,837	5,020
Intergovernmental - Federal/NSP	3,000	3,000	18,072	15,072
Intergovernmental - State	227,000	227,000	202,010	(24,990)
Charges for Services	183,000	183,000	177,768	(5,232)
Interest Earnings	12,000	12,000	10,840	(1,160)
Administration Fees	129,000	129,000	129,000	-
Other Revenues	10,500	10,500	11,405	905
Total Revenues	<u>1,533,817</u>	<u>1,533,817</u>	<u>1,524,355</u>	<u>(9,462)</u>
<u>Expenditures:</u>				
General Government:				
Village Council	5,000	5,000	4,635	365
Village Manager	103,750	111,250	105,925	5,325
Clerk	112,216	112,216	107,470	4,746
Treasurer	137,615	137,615	128,807	8,808
Municipal Building	145,650	145,650	143,692	1,958
Data Processing	6,600	6,600	5,005	1,595
Professional Services	56,000	73,000	58,709	14,291
	<u>566,831</u>	<u>591,331</u>	<u>554,243</u>	<u>37,088</u>
Public Works:				
Sanitation	155,800	155,800	155,124	676
Street Lighting	31,000	31,000	33,409	(2,409)
	<u>186,800</u>	<u>186,800</u>	<u>188,533</u>	<u>(1,733)</u>
Health and Welfare:				
Community Development Block Grant	6,817	12,000	11,837	163
Community Development NSP	-	12,000	11,325	675
	<u>6,817</u>	<u>24,000</u>	<u>23,162</u>	<u>838</u>
Community and Economic Development:				
Planning and Zoning	75,500	75,500	69,807	5,693
Recreation and Cultural:				
Parks and Recreation	34,300	34,300	31,262	3,038
Other Functions:				
Insurance	60,000	60,000	58,053	1,947
Community Promotion	1,200	1,200	1,196	4
	<u>61,200</u>	<u>61,200</u>	<u>59,249</u>	<u>1,951</u>
Total Expenditures	<u>931,448</u>	<u>973,131</u>	<u>926,256</u>	<u>46,875</u>
Excess of Revenues Over Expenditures	602,369	560,686	598,099	37,413
Other Financing Uses:				
Operating Transfers Out	(624,200)	(624,200)	(624,200)	-
Net Change in Fund Balance	(21,831)	(63,514)	(26,101)	37,413
Fund Balance - July 1	<u>470,723</u>	<u>470,723</u>	<u>470,723</u>	<u>-</u>
Fund Balance - June 30	\$ <u>448,892</u>	\$ <u>407,209</u>	\$ <u>444,622</u>	\$ <u>37,413</u>

VILLAGE OF LAKE ORION
Public Works Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Charges for Services	\$ 31,200	\$ 31,200	\$ 31,200	\$ -
Equipment Rental	110,000	110,000	92,343	(17,657)
Cemetery	41,000	41,000	37,977	(3,023)
Interest Income	1,000	1,000	241	(759)
Other	-	-	3,100	3,100
Total Revenues	<u>183,200</u>	<u>183,200</u>	<u>164,861</u>	<u>(18,339)</u>
<u>Expenditures:</u>				
Wages and Benefits	319,243	319,243	316,858	2,385
Repairs and Maintenance	19,000	19,000	13,182	5,818
Other	38,100	38,100	32,832	5,268
Cemetery	67,000	67,000	53,491	13,509
Phase II Stormwater	16,000	16,000	14,148	1,852
Total Expenditures	<u>459,343</u>	<u>459,343</u>	<u>430,511</u>	<u>28,832</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(276,143)</u>	<u>(276,143)</u>	<u>(265,650)</u>	<u>10,493</u>
<u>Other Financing Sources:</u>				
Transfers In	<u>220,200</u>	<u>220,200</u>	<u>220,200</u>	<u>-</u>
Net Change in Fund Balance	(55,943)	(55,943)	(45,450)	10,493
Fund Balance, July 1	<u>97,136</u>	<u>97,136</u>	<u>97,136</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 41,193</u>	<u>\$ 41,193</u>	<u>\$ 51,686</u>	<u>\$ 10,493</u>

VILLAGE OF LAKE ORION
Police Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Intergovernmental-State	\$ 5,000	\$ 5,000	\$ 6,159	\$ 1,159
Intergovernmental-Local	286,000	286,000	287,862	1,862
Fines and Forfeitures	70,000	70,000	53,752	(16,248)
Interest Income	300	300	21	(279)
Other	128,000	128,000	92,963	(35,037)
Total Revenues	<u>489,300</u>	<u>489,300</u>	<u>440,757</u>	<u>(48,543)</u>
<u>Expenditures:</u>				
Wages and Benefits	749,500	749,500	725,085	24,415
Other	116,400	116,400	101,648	14,752
Debt Service	15,200	15,200	15,456	(256)
Capital Outlay	4,000	47,753	48,374	(621)
Total Expenditures	<u>885,100</u>	<u>928,853</u>	<u>890,563</u>	<u>38,290</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(395,800)</u>	<u>(439,553)</u>	<u>(449,806)</u>	<u>(10,253)</u>
<u>Other Financing Sources:</u>				
Loan Proceeds	-	43,753	43,753	-
Transfers In	384,000	384,000	384,000	-
Total Other Financing Sources	<u>384,000</u>	<u>427,753</u>	<u>427,753</u>	<u>-</u>
Net Change in Fund Balance	(11,800)	(11,800)	(22,053)	(10,253)
Fund Balance, July 1	<u>26,318</u>	<u>26,318</u>	<u>26,318</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 14,518</u>	<u>\$ 14,518</u>	<u>\$ 4,265</u>	<u>\$ (10,253)</u>

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF LAKE ORION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project Flint Street</u>	<u>Permanent Fund Cemetery</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 139,053	\$ 9,388	\$ 371,788	\$ 231,496	\$ 751,725
Accounts Receivable	-	-	-	108	108
Due from State	<u>23,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,431</u>
Total Assets	<u>\$ 162,484</u>	<u>\$ 9,388</u>	<u>\$ 371,788</u>	<u>\$ 231,604</u>	<u>\$ 775,264</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts Payable	\$ <u>218</u>	\$ <u>-</u>	\$ <u>1,468</u>	\$ <u>-</u>	\$ <u>1,686</u>
Fund Balance:					
Reserved for Debt Service	-	9,388	-	-	9,388
Reserved for Perpetual Care	-	-	-	231,604	231,604
Unreserved	<u>162,266</u>	<u>-</u>	<u>370,320</u>	<u>-</u>	<u>532,586</u>
Total Fund Balance	<u>162,266</u>	<u>9,388</u>	<u>370,320</u>	<u>231,604</u>	<u>773,578</u>
Total Liabilities and Fund Balance	<u>\$ 162,484</u>	<u>\$ 9,388</u>	<u>\$ 371,788</u>	<u>\$ 231,604</u>	<u>\$ 775,264</u>

VILLAGE OF LAKE ORION
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project Flint Street</u>	<u>Permanent Fund Cemetery</u>	<u>Total</u>
<u>Revenues:</u>					
Property Tax Revenue	\$ -	\$ 189,226	\$ -	\$ -	\$ 189,226
State-Shared Revenue	143,065	-	-	-	143,065
Interest Earned	465	47	1,080	2,774	4,366
Other Revenues	2,407	-	-	14,750	17,157
Total Revenues	<u>145,937</u>	<u>189,273</u>	<u>1,080</u>	<u>17,524</u>	<u>353,814</u>
<u>Expenditures:</u>					
Highways, Streets, Sidewalks and Other Maintenance	146,641	-	43,922	-	190,563
Other	561	-	-	-	561
Debt Service:					
Principal	-	165,000	-	-	165,000
Interest and Other Charges	-	35,257	-	-	35,257
Capital Outlay	10,147	-	-	-	10,147
Total Expenditures	<u>157,349</u>	<u>200,257</u>	<u>43,922</u>	<u>-</u>	<u>401,528</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,412)</u>	<u>(10,984)</u>	<u>(42,842)</u>	<u>17,524</u>	<u>(47,714)</u>
Other Financing Sources (Uses):					
Operating Transfers In	32,000	15,000	-	-	47,000
Operating Transfers Out	(27,000)	-	-	-	(27,000)
Operating Transfers In-Component Unit	-	-	100,000	-	100,000
Total Other Financing Sources (Uses)	<u>5,000</u>	<u>15,000</u>	<u>100,000</u>	<u>-</u>	<u>120,000</u>
Change in Fund Balance	(6,412)	4,016	57,158	17,524	72,286
Fund Balance - July 1	<u>168,678</u>	<u>5,372</u>	<u>313,162</u>	<u>214,080</u>	<u>701,292</u>
Fund Balance - June 30	\$ <u><u>162,266</u></u>	\$ <u><u>9,388</u></u>	\$ <u><u>370,320</u></u>	\$ <u><u>231,604</u></u>	\$ <u><u>773,578</u></u>

VILLAGE OF LAKE ORION
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2010

	<u>Major Street</u>	<u>Local Street</u>	<u>Capital Improvement</u>	<u>Total</u>
<u>ASSETS</u>				
Cash	\$ 17,577	\$ 34,483	\$ 86,993	\$ 139,053
Due from State	<u>16,239</u>	<u>7,192</u>	<u>-</u>	<u>23,431</u>
Total Assets	\$ <u><u>33,816</u></u>	\$ <u><u>41,675</u></u>	\$ <u><u>86,993</u></u>	\$ <u><u>162,484</u></u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 218	\$ -	\$ -	\$ 218
Fund Balance:				
Undesignated	<u>33,598</u>	<u>41,675</u>	<u>86,993</u>	<u>162,266</u>
Total Liabilities and Fund Balance	\$ <u><u>33,816</u></u>	\$ <u><u>41,675</u></u>	\$ <u><u>86,993</u></u>	\$ <u><u>162,484</u></u>

VILLAGE OF LAKE ORION
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2010

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Capital Improvement</u>	<u>Total</u>
<u>Revenues:</u>				
State-Shared Revenue	\$ 99,154	\$ 43,911	\$ -	\$ 143,065
Interest Earned	57	117	291	465
Other Revenues	-	2,407	-	2,407
Total Revenues	<u>99,211</u>	<u>46,435</u>	<u>291</u>	<u>145,937</u>
<u>Expenditures:</u>				
Highways, Streets, Sidewalks and Other Maintenance	80,339	66,302	-	146,641
Other	-	-	561	561
Capital Outlay	-	-	10,147	10,147
Total Expenditures	<u>80,339</u>	<u>66,302</u>	<u>10,708</u>	<u>157,349</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>18,872</u>	<u>(19,867)</u>	<u>(10,417)</u>	<u>(11,412)</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	32,000	-	32,000
Operating Transfers Out	(12,000)	(15,000)	-	(27,000)
Total Other Financing Sources (Uses)	<u>(12,000)</u>	<u>17,000</u>	<u>-</u>	<u>5,000</u>
Change in Fund Balance	6,872	(2,867)	(10,417)	(6,412)
Fund Balance - July 1	<u>26,726</u>	<u>44,542</u>	<u>97,410</u>	<u>168,678</u>
Fund Balance - June 30	<u>\$ 33,598</u>	<u>\$ 41,675</u>	<u>\$ 86,993</u>	<u>\$ 162,266</u>

VILLAGE OF LAKE ORION
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2010

	<u>1998</u> <u>G.O. Bonds</u>	<u>North Shore</u> <u>Bridge</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ <u>7,747</u>	\$ <u>1,641</u>	\$ <u>9,388</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities	\$ -	\$ -	\$ -
Fund Balance:			
Reserved for Debt Service	<u>7,747</u>	<u>1,641</u>	<u>9,388</u>
Total Liabilities and Fund Balance	\$ <u>7,747</u>	\$ <u>1,641</u>	\$ <u>9,388</u>

VILLAGE OF LAKE ORION
Nonmajor Debt Service Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2010

	<u>1998</u> <u>G.O. Bonds</u>	<u>North Shore</u> <u>Bridge</u>	<u>Total</u>
<u>Revenues:</u>			
Property Taxes	\$ 189,226	\$ -	\$ 189,226
Interest Income	<u>45</u>	<u>2</u>	<u>47</u>
Total Revenues	<u>189,271</u>	<u>2</u>	<u>189,273</u>
<u>Expenditures:</u>			
Principal	155,000	10,000	165,000
Interest and Other Charges	<u>30,910</u>	<u>4,347</u>	<u>35,257</u>
Total Expenditures	<u>185,910</u>	<u>14,347</u>	<u>200,257</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,361</u>	<u>(14,345)</u>	<u>(10,984)</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfer In	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Change in Fund Balance	3,361	655	4,016
Fund Balance - July 1	<u>4,386</u>	<u>986</u>	<u>5,372</u>
Fund Balance - June 30	\$ <u>7,747</u>	\$ <u>1,641</u>	\$ <u>9,388</u>

VILLAGE OF LAKE ORION
Combined Balance Sheet
Component Unit - DDA
June 30, 2010

	<u>Downtown Development Authority</u>	<u>DDA Property Acquisition Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 365,471	\$ 3,486	\$ 368,957
Accounts Receivable	1,233	-	1,233
Delinquent Taxes Receivable	2,122	-	2,122
Prepaid Expenditures	9,045	-	9,045
	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>377,871</u>	\$ <u>3,486</u>	\$ <u>381,357</u>

Liabilities and Fund Balance

Liabilities:

Accounts Payable	\$ 17,501	\$ -	\$ 17,501
Deferred Revenue	2,122	-	2,122
Total Liabilities	<hr/> 19,623	<hr/> -	<hr/> 19,623
	<hr/>	<hr/>	<hr/>
Fund Balance	358,248	3,486	361,734
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	\$ <u>377,871</u>	\$ <u>3,486</u>	\$ <u>381,357</u>

Reconciliation to Statement of Net Assets (page 11):

Fund Balance at June 30, 2010	\$ 361,734
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,668,132
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<hr/> (74,000)
Net Assets of Governmental Activities-Component Unit	\$ <u>1,955,866</u>

VILLAGE OF LAKE ORION
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Component Unit - DDA
June 30, 2010

	Downtown Development Authority	DDA Property Acquisition Fund	Total
<u>Revenues</u>			
Property Taxes	\$ 654,810	\$ -	\$ 654,810
Intergovernmental:			
Federal, State and Local	75,722	-	75,722
Charges for Services	45,097	-	45,097
Interest	4,159	129	4,288
Other	850	-	850
Total Revenues	<u>780,638</u>	<u>129</u>	<u>780,767</u>
<u>Expenditures</u>			
Community Development	401,728	100	401,828
Debt Service:			
Principal	-	75,000	75,000
Interest and Other Charges	-	6,315	6,315
Capital Outlay	127,102	-	127,102
Total Expenditures	<u>528,830</u>	<u>81,415</u>	<u>610,245</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>251,808</u>	<u>(81,286)</u>	<u>170,522</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	-	5,000	5,000
Transfers Out	(5,000)	-	(5,000)
Transfer Out - Primary Government	(100,000)	-	(100,000)
Total Other Financing Sources (Uses)	<u>(105,000)</u>	<u>5,000</u>	<u>(100,000)</u>
Net Change in Fund Balance	146,808	(76,286)	70,522
Fund Balance - Beginning	<u>211,440</u>	<u>79,772</u>	<u>291,212</u>
Fund Balance - Ending	<u>\$ 358,248</u>	<u>\$ 3,486</u>	<u>\$ 361,734</u>

Reconciliation to Statement of Activities (pages 12-13):

Net Change in Fund Balance at June 30, 2010 \$ 70,522

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlay in excess of depreciation in the current period. 56,309

Repayment of the principal of long-term debt is recorded as an expenditure in governmental funds. In the Statement of Net Assets, it is a reduction in the long-term debt payable. This amount represents the principal paid on long-term debt in the current year plus additional debt incurred. 75,000

Change in Net Assets-Component Unit \$ 201,831

VILLAGE OF LAKE ORION
Schedule of Indebtedness
Governmental Funds
June 30, 2010

1998 General Obligation Unlimited Tax Bonds

Date of Issue: April 1, 1998

Total Issue \$ 1,700,000

Interest Due May 1 and November 1

Due As Follows:

<u>Interest Rate</u>	<u>Date of Maturity</u>		<u>Principal Amount</u>		<u>Annual Interest Payable</u>		<u>Total Obligation</u>
4.70%	11/01/10	\$	175,000	\$	22,933	\$	197,933
4.80%	11/01/11		190,000		14,260		204,260
4.85%	11/01/12		200,000		4,850		204,850
		\$	<u>565,000</u>	\$	<u>42,043</u>	\$	<u>607,043</u>

2003 Michigan Transportation Fund Bonds

Date of Issue: May 1, 2003

Total Issue \$ 175,000

Interest Due April 1 and October 1

Due As Follows:

<u>Interest Rate</u>	<u>Date of Maturity</u>		<u>Principal Amount</u>		<u>Annual Interest Payable</u>		<u>Total Obligation</u>
5.00%	10/01/10	\$	10,000	\$	5,250	\$	15,250
5.00%	10/01/11		10,000		4,750		14,750
5.00%	10/01/12		10,000		4,250		14,250
5.00%	10/01/13		15,000		3,750		18,750
5.00%	10/01/14		15,000		3,000		18,000
5.00%	10/01/15		15,000		2,250		17,250
5.00%	10/01/16		15,000		1,500		16,500
5.00%	10/01/17		15,000		750		15,750
		\$	<u>105,000</u>	\$	<u>25,500</u>	\$	<u>130,500</u>

Installment Purchase-Police Vehicles

Date of Loan: September 30, 2009

Total Loan \$ 43,753

Due As Follows:

<u>Interest Rate</u>	<u>Date of Maturity</u>		<u>Principal Amount</u>		<u>Annual Interest Payable</u>		<u>Total Obligation</u>
4.70%	9/30/2010	\$	13,730	\$	1,726	\$	15,456
4.85%	9/30/2011		14,567		889		15,456
		\$	<u>28,297</u>	\$	<u>2,615</u>	\$	<u>30,912</u>

2006 DDA Land Contract

Date of Loan: November 14, 2006

Total Loan \$ 299,000

Due As Follows:

<u>Interest Rate</u>	<u>Date of Maturity</u>		<u>Principal Amount</u>		<u>Annual Interest Payable</u>		<u>Total Obligation</u>
6.00%	11/14/10	\$	<u>74,000</u>	\$	<u>1,850</u>	\$	<u>75,850</u>

VILLAGE OF LAKE ORION
Schedule of Indebtedness
Proprietary Fund
June 30, 2010

2003 General Obligation Unlimited Tax
Water Refunding Bonds
Date of Issue - April 2003

Total Issue \$1,295,000
Interest Due April 1 and October 1
Bonds Due as Follows:

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Amount</u>	<u>Annual Interest Payable</u>	<u>Total Obligation</u>
3.40%	04/01/11	\$ 140,000	\$ 14,627	\$ 154,627
3.55%	04/01/12	135,000	9,867	144,867
3.63%	04/01/13	140,000	5,075	145,075
		\$ <u>415,000</u>	\$ <u>29,569</u>	\$ <u>444,569</u>

POST, SMYTHE, LUTZ and ZIEL LLP

Certified Public Accountants

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September 22, 2010

To the Village President and Council
Village of Lake Orion
Oakland County, Michigan

We have audited the financial statements of the Village of Lake Orion for the year ended June 30, 2010, and have issued our report thereon dated September 22, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 2, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village of Lake Orion. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 2, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Lake Orion are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Estimates of the allowance for doubtful accounts for property tax collections are based on historical collection statistics.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements related to those estimates discussed in the section above.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village President, Village Council, and management of the Village of Lake Orion and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Post Smythe Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP
Certified Public Accountants

POST, SMYTHE, LUTZ and ZIEL

of Plymouth LLP

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September 22, 2010

To the Village President and Council
Village of Lake Orion
Oakland County, Michigan

In planning and performing our audit of the financial statements of the Village of Lake Orion as of and for the year ended June 30, 2010 in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.


A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Village's internal control to be significant deficiencies:

The Village relies on its auditors to prepare the annual financial statements. While this is common in smaller local units of government, we are required to communicate this to you as part of recently issued auditing standards. The Village's administrative officials did review the financial statements prior to their release.

Village President and Council
Village of Lake Orion
September 22, 2010
Page 2

This communication is intended solely for the information and use of management and the Village Council of the Village of Lake Orion and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Post Smythe Lutz and Ziel of Plymouth".

Post, Smythe, Lutz and Ziel of Plymouth LLP
Certified Public Accountants