

**Onekama Consolidated Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2014

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# MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Onekama Consolidated School’s (the “District”) annual financial report presents a discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2014. It is to be read in conjunction with the District’s financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

- The District’s financial status remained stable during the year due to an increase in the student count and an increase in the foundation allowance.
- The State of Michigan foundation grant increased by \$43 from \$7,916 to \$7,959.

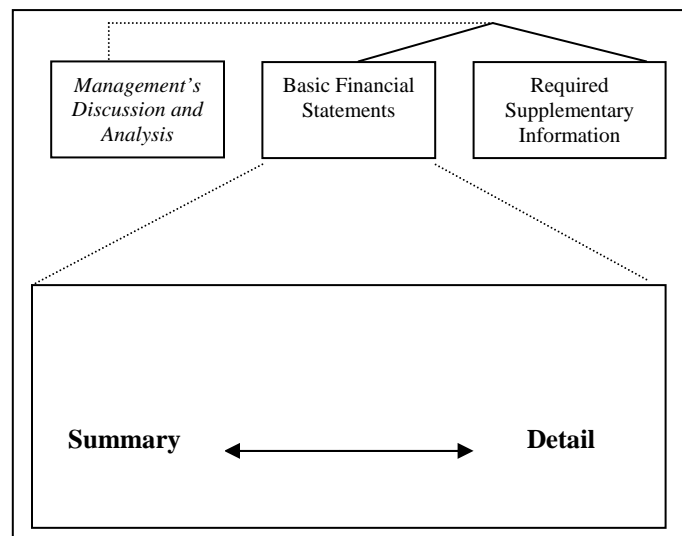
## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Onekama Consolidated Schools Annual**  
**Financial Report**



<b>Figure A-2</b>			
<b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets.
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

## **DISTRICT-WIDE STATEMENTS**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include *all* of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District’s *net position* and how they have changed. Net assets, the difference between the District’s assets and liabilities, are one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds*: The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's *combined* net position was more on June 30, 2014 than they were the year before – increasing by \$125,661 to \$1,928,765.

The District's financial position is the product of tighter controls on expenditures.

Summary of Net Position (provides a perspective of the District as a whole).

<b>Table A-3</b>		
	2013	2014
Current and other assets	\$ 1,498,559	\$ 1,472,609
Capital assets	16,209,618	15,769,077
Total assets	17,708,177	17,241,686
Long-term debt outstanding	14,899,691	14,318,030
Other liabilities	1,005,382	994,891
Total liabilities	15,905,073	15,312,921
Net assets		
Invested in property and equipment, net of related debt	832,582	967,635
Restricted for		
Food Service	31,310	43,919
Debt Service	83,672	76,126
Unrestricted	855,540	841,085
Total net position	\$ 1,803,104	\$ 1,928,765

Statement of Activities (provides the results of operations of the District as a whole).

Revenues	2013	2014
Property Taxes, levied for general purposes	\$ 2,742,735	\$ 2,725,214
Property Taxes, levied for debt services	1,218,192	1,191,409
State aid not restricted to specific purposes	345,002	656,430
Interest and other	194,400	62,266
Charges for services	287,164	292,687
Operating grants/contributions	435,758	463,303
Capital grants/contributions	4,885	-
Total revenues	5,228,136	5,391,309
Expenses		
Instruction	2,089,912	2,306,129
Support services	1,424,412	1,454,258
Community services	5,027	8,140
Food services	190,686	199,423
Leaps and bounds	161,801	165,789
Other	17,388	4,009
Interest on long-term debt	664,068	644,294
Depreciation-unallocated	480,291	483,606
Total expenses	5,033,585	5,265,648
Increase in Net Assets	194,551	125,661
Net Assets - Beginning of year	1,608,553	1,803,104
Net Assets - End of year - restated	<u>\$ 1,803,104</u>	<u>\$ 1,928,765</u>

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,177,157; an increase of \$1,267 over last year's ending fund balances of \$1,175,890.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are as follows:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the final budget for the general fund anticipated that revenues and expenditures would reflect a decrease of \$63,165, the actual results for the year show an increase of \$26,233 due to final adjustments to personnel and conservative budgeting of expense line items.

- Actual revenues were \$3,806,611 or \$23,560 less than expected, due primarily to final grant allocations.
- Actual expenditures were \$3,754,403 or \$113,171 below budget, due primarily to conservative budgeting of supplies and utilities.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Depreciable assets for the 2013-2014 school year totaled \$19,240,114. During the year, the District invested an additional \$43,065 in equipment. A summary of capital assets follows:

	<u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</u>
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Capital assets being depreciated:				
Building and building improvements	18,064,953	-	-	18,064,953
Buses and other vehicles	383,060	-	-	383,060
Furniture and equipment	749,036	43,065	-	792,101
Gross capital assets	19,599,015	43,065	-	19,642,080
Less accumulated depreciation:	<u>(3,389,397)</u>	<u>(483,606)</u>	<u>-</u>	<u>(3,873,003)</u>
Net governmental capital assets	<u>\$ 16,209,618</u>	<u>\$ (440,541)</u>	<u>\$ -</u>	<u>\$ 15,769,077</u>

### Long-term Debt

At year-end the District had \$14,695,000 in general obligation bonds and \$22,274 in note payable obligations.



**Table A-6**  
**The District's Outstanding Long-Term Debt**

	2013	Net Additions/ (Payments)	2014
General obligation debts (financed with property taxes)	\$ 15,255,000	\$ (560,000)	\$ 14,695,000
Note Payable/Capital lease	33,129	(10,855)	22,274
Unamortized bond premium	88,909	(4,741)	84,168
Accumulated Sick & Vacation	98,250	14,122	112,372
<b>Total</b>	<b>\$ 15,475,288</b>	<b>\$ (561,474)</b>	<b>\$ 14,913,814</b>

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The 2014-2015 foundation allowance will increase by a range from \$50 - \$175. Student enrollment is always fluctuating and a concern and will be closely monitored.
- There is a section 22j for performance based funding using FY 2013 MEAP and MEE data as the basis for the funding.
- The Board of Education and the Onkama Education Association have a contract through the year ended August 21, 2016.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Onkama Consolidated School District Business Office at 772 E Parkdale Ave, Manistee, MI, 49660.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Onekama Consolidated Schools

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Onekama Consolidated Schools* (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Onekama Consolidated Schools as of June 30, 2014, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *vii*, and budgetary comparison information on page 25, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

September 29, 2014

# Onekama Consolidated Schools

## STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and equivalents	\$ 1,286,337
Other receivables	2,288
Due from other governments	174,166
Prepaid expenses	<u>9,818</u>
Total current assets	1,472,609
Non-current assets	
Capital assets, net of accumulated depreciation	<u>15,769,077</u>
Total assets	<u><u>\$ 17,241,686</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 20,064
Salaries payable and related liabilities	264,690
Accrued interest	103,655
Unearned revenue	10,698
Current portion of long-term liabilities	<u>595,784</u>
Total current liabilities	994,891
Non-current portion of long-term obligations	<u>14,318,030</u>
Total liabilities	<u>15,312,921</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	967,635
Restricted for	
Debt Service	76,126
Food Service	44,999
Unrestricted	<u>840,005</u>
Total net position	<u>1,928,765</u>
Total liabilities and net position	<u><u>\$ 17,241,686</u></u>

The accompanying notes are an integral part of these financial statements.

# Onekama Consolidated Schools

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Program	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 2,306,129	\$ -	\$ 304,548	\$ -	\$ (2,001,581)
Supporting Services	1,454,258	57,964	24,606	-	(1,371,688)
Community Services	8,140	-	-	-	(8,140)
Food Service	199,423	70,555	134,149	-	5,281
Leaps and Bounds	165,789	164,168	-	-	(1,621)
Other	4,009	-	-	-	(4,009)
Interest on long-term debt	644,294	-	-	-	(644,294)
Depreciation, unallocated	<u>483,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(483,606)</u>
Total governmental activities	<u>\$ 5,265,648</u>	<u>\$ 292,687</u>	<u>\$ 463,303</u>	<u>\$ -</u>	<u>(4,509,658)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					2,725,214
Levied for Debt Service					1,191,409
State school aid - unrestricted					656,430
Investments and other					<u>62,266</u>
Total general purpose revenues					<u>4,635,319</u>
Change in net position					125,661
Net position, beginning of year					<u>1,803,104</u>
Net position, end of year					<u>\$ 1,928,765</u>

-6- The accompanying notes are an integral part of these financial statements.

# Onekama Consolidated Schools

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	Major Fund			Non-major Governmental Funds	Total Governmental Funds
	General Fund	2007 Debt Retirement Fund	Capital Projects Fund		
<b>ASSETS</b>					
Cash and equivalents	\$ 798,650	\$ 78,532	\$ 246,842	\$ 162,313	\$ 1,286,337
Due from other governments	170,200	-	-	3,966	174,166
Accounts receivables	32	-	-	2,256	2,288
Due from other funds	1,107	-	-	2,731	3,838
Prepaid expenditures	<u>8,738</u>	<u>-</u>	<u>-</u>	<u>1,080</u>	<u>9,818</u>
Total assets	<u>\$ 978,727</u>	<u>\$ 78,532</u>	<u>\$ 246,842</u>	<u>\$ 172,346</u>	<u>\$ 1,476,447</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 19,779	\$ -	\$ -	\$ 285	\$ 20,064
Salaries payable and related liabilities	262,094	-	-	2,596	264,690
Due to other funds	2,720	-	-	1,118	3,838
Unearned revenue	<u>5,139</u>	<u>-</u>	<u>-</u>	<u>5,559</u>	<u>10,698</u>
Total liabilities	<u>289,732</u>	<u>-</u>	<u>-</u>	<u>9,558</u>	<u>299,290</u>
<b>FUND BALANCES</b>					
Nonspendable - prepaids	8,738	-	-	1,080	9,818
Restricted					
Debt Service	-	78,532	-	101,249	179,781
Food Service	-	-	-	43,919	43,919
Committed					
Subsequent year expenditures	148,948	-	-	-	148,948
Leaps and Bounds	-	-	-	16,540	16,540
Assigned					
Building improvements	-	-	246,842	-	246,842
Compensated absences	112,372	-	-	-	112,372
Unassigned	<u>418,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,937</u>
Total fund balances	<u>688,995</u>	<u>78,532</u>	<u>246,842</u>	<u>162,788</u>	1,177,157
Total liabilities and fund balances	<u>\$ 978,727</u>	<u>\$ 78,532</u>	<u>\$ 246,842</u>	<u>\$ 172,346</u>	

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$19,642,080 and the accumulated depreciation is \$3,873,003.

15,769,077

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 14,695,000	
Notes payable	22,274	
Unamortized bond premium	84,168	
Accrued interest on bonds	103,655	
Accumulated leave liability	<u>112,372</u>	<u>(15,017,469)</u>

Total net position - governmental activities

\$ 1,928,765

## Onekama Consolidated Schools

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	<u>Major Funds</u>			Non-major Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>2007 Debt Retirement Fund</u>	<u>Capital Projects Fund</u>		
Revenues					
Property taxes	\$2,725,214	\$ 546,276	\$ -	\$ 644,602	\$ 3,916,092
Interest	436	390	432	593	1,851
State revenues	856,041	-	-	6,709	862,750
Federal revenues	118,956	-	-	131,462	250,418
Other	<u>105,964</u>	<u>-</u>	<u>12,513</u>	<u>241,721</u>	<u>360,198</u>
Total revenues	<u>3,806,611</u>	<u>546,666</u>	<u>12,945</u>	<u>1,025,087</u>	<u>5,391,309</u>
Expenditures					
Instruction	2,292,007	-	-	-	2,292,007
Supporting Services	1,450,934	-	-	-	1,450,934
Community Services	8,140	-	-	-	8,140
Food Service	-	-	-	199,423	199,423
Leaps and Bounds	-	-	-	165,789	165,789
Other	2,500	-	-	-	2,500
Debt Service					
Principal	15,730	150,000	-	410,000	575,730
Interest	6,343	405,424	-	235,988	647,755
Other	-	250	-	1,125	1,375
Capital outlay	<u>3,324</u>	<u>-</u>	<u>43,065</u>	<u>-</u>	<u>46,389</u>
Total expenditures	<u>3,778,978</u>	<u>555,674</u>	<u>43,065</u>	<u>1,012,325</u>	<u>5,390,042</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>27,633</u>	<u>(9,008)</u>	<u>(30,120)</u>	<u>12,762</u>	<u>1,267</u>
Other financing sources (uses)					
Interfund transfers in	-	-	-	1,400	1,400
Interfund transfers out	<u>(1,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,400)</u>
Total other financing sources (uses)	<u>(1,400)</u>	<u>-</u>	<u>-</u>	<u>1,400</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	26,233	(9,008)	(30,120)	14,162	1,267
Fund balances, beginning of year	<u>662,762</u>	<u>87,540</u>	<u>276,962</u>	<u>148,626</u>	<u>1,175,890</u>
Fund balances, end of year	<u>\$ 688,995</u>	<u>\$ 78,532</u>	<u>\$ 246,842</u>	<u>\$ 162,788</u>	<u>\$ 1,177,157</u>

The accompanying notes are an integral part of these financial statements.



## Onekama Consolidated Schools

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

**Total net change in fund balances - governmental funds** \$ 1,267

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 43,065	
Depreciation expense	<u>(483,606)</u>	(440,541)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was more than the amounts used by \$14,122.

(14,122)

Repayment of bond principal and capitalized leases are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

570,855

Amortization of bond premium.

4,741

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower amount of interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.

3,461

**Changes in net position of governmental activities**

\$ 125,661

# Onekama Consolidated Schools

## STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 98,215</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 98,215</u>

# Onekama Consolidated Schools

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Onekama Consolidated Schools (the "School District") is a Michigan public school district consisting of one K-12 building. The School District primarily serves the Onekama and Arcadia communities. As of June 30, 2014, the School District employed 21 professional staff and 35 non-professional staff, and had 427 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2014.

#### *Financial Reporting Entity*

Onekama Consolidated Schools is a special purpose government and considered to be a primary government because it has separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Onekama Consolidated Schools includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

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

##### *Government-Wide Financial Statements*

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

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

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

The 2007 Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

NOTES TO FINANCIAL STATEMENTS - Continued

*Activities in Non-major Funds*

*Governmental Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are committed or restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service and Leaps and Bounds Funds.

The 2004 and 2008 Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

*Fiduciary Funds*

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

***Cash and Cash Equivalents***

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	7-50 years
Buses and vehicles	8 years
Furniture and equipment	5-20 years

***Long-term Debt and Bond Discounts/Premiums***

In the government-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as other financing uses.

***Fund Equity***

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School District Board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the School District Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I and At-Risk Program, which are reported as operating grants and contributions.

***Spending Policy***

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

***Encumbrance Accounting***

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**NOTE B - CASH AND EQUIVALENTS**

At June 30, 2014, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Bank deposits	\$ 901,245
Investments	<u>483,307</u>
	<u><u>\$ 1,384,552</u></u>

***Bank Deposits***

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

***Custodial Credit Risk - Deposits***

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2014, \$653,114 of the School District's bank balance of \$903,114 was exposed to custodial credit risk because it is uninsured and uncollateralized.

***Investments***

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments at June 30, 2014 consisted of the following:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 483,307</u>	<u>\$ 483,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk*

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market fund, or similar investment pools and limiting the average maturity.

*Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District further limits its investment choices as described above. The School District's investment in the Michigan Liquid Asset Fund ("MILAF") investment pool was rated AAAM by Standard & Poor's.

**NOTE C - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE**

***Property Taxes Receivable, Unearned Revenue and Property Tax Calendar***

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as unearned revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18.00 per \$1,000 of equalized non-principal residence property value of \$149.94 million and \$6 per \$1,000 of equalized commercial personal property value of \$2.76 million was levied for general operating purposes. For Debt Service, \$4.36 per \$1,000 of total equalized property value of \$272.3 million was levied for bonded debt repayments by the Debt Service Fund.



NOTES TO FINANCIAL STATEMENTS - Continued

***Intergovernmental Receivables and Unearned Revenue***

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2014 are as follows:

Due from the State of Michigan	
State aid	\$ 158,852
Due from Federal grants	<u>15,314</u>
	<u>\$ 174,166</u>

**NOTE D - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Buildings and improvements	\$ 18,064,953	\$ -	\$ -	\$ 18,064,953
Buses and vehicles	383,060	-	-	383,060
Furniture and equipment	<u>749,036</u>	<u>43,065</u>	<u>-</u>	<u>792,101</u>
Total depreciable assets	19,197,049	43,065	-	19,240,114
Less accumulated depreciation	(3,389,397)	(483,606)	-	(3,873,003)
Land	<u>401,966</u>	<u>-</u>	<u>-</u>	<u>401,966</u>
Total capital assets, net	<u>\$ 16,209,618</u>	<u>\$ (440,541)</u>	<u>\$ -</u>	<u>\$ 15,769,077</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 483,606</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - LONG-TERM LIABILITIES**

Changes in long-term liabilities during the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 15,255,000	\$ -	\$ (560,000)	\$ 14,695,000	\$ 580,000
Notes payable	33,129	-	(10,855)	22,274	11,042
Unamortized bond premium	88,909	-	(4,741)	84,168	4,742
Accumulated leave liability	<u>98,250</u>	<u>14,122</u>	<u>-</u>	<u>112,372</u>	<u>-</u>
Long-term liabilities	<u>\$ 15,475,288</u>	<u>\$ 14,122</u>	<u>\$ (575,596)</u>	<u>\$ 14,913,814</u>	<u>\$ 595,784</u>

Payments on general obligation bonds are made by the Debt Retirement Funds. Payments on notes payable are made by the General Fund. The accumulated leave liability will be liquidated primarily by the General Fund.

At June 30, 2014, the School District's long-term debt consisted of the following:

\$3,645,000 2004 School District refunding general obligation bonds for the advance refunding of the School District's 1996 bond issue; due in annual installments of \$305,000 to \$330,000 through 2018; interest rates from 3.05% to 4.10%.	\$ 1,560,000
\$9,840,000 2007 School Building and Site general obligation bonds; due in annual installments of \$135,000 to \$770,000 through May 2032; interest rates from 4.00% to 5.00%; due semi-annually.	9,215,000
\$4,260,000 2008 School Building and Site general obligation bonds; due in annual installments beginning May 1, 2010 of \$75,000 to \$275,000 through May 2032; interest rates from 3.50% to 4.50%; due semi-annually.	<u>3,920,000</u>
Total general obligation bonds	14,695,000
Note payable for a bus with a cost of \$74,015; due in annual installments of \$11,330 through August 2015; interest rate of 1.72%; due semi-annually.	22,274
Unamortized bond premium	84,168
Accumulated leave liability	<u>112,372</u>
Total long-term debt	<u>\$14,913,814</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize general obligation bonds and note payable outstanding as of June 30, 2014 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 591,042	\$ 621,354
2016	611,232	599,173
2017	625,000	576,380
2018	650,000	562,546
2019	680,000	509,710
2020-2024	3,850,000	2,131,806
2025-2029	4,610,000	1,265,496
2030-2034	<u>3,100,000</u>	<u>268,660</u>
	<u>\$14,717,274</u>	<u>\$ 6,535,125</u>

Interest expense for the year ended June 30, 2014 was \$644,294, and interest paid was \$647,755.

***Accumulated Leave Liability***

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after four years of employment. Upon either resignation or retirement, the employees are compensated at a daily rate specified in the bargaining units' contracts.

**NOTE F - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Onkama Consolidated Schools. At June 30, 2014, there were no significant unbilled claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

**NOTE G - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

*Receivables and Payables*

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General	\$ 1,107	\$ 2,720
Other Governmental Funds		
Food Service	2,731	1,107
Leaps and Bounds	<u>-</u>	<u>11</u>
	<u>\$ 3,838</u>	<u>\$ 3,838</u>

*Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Food Service Fund	<u>\$ 1,400</u>	General Fund	<u>\$ 1,400</u>

**NOTE H - PENSION PLAN AND POST EMPLOYMENT BENEFITS**

The School District contributes to the Michigan Public School Employees Retirement Systems ("MPSERS"), statewide cost-sharing multiple-employer defined benefit and defined contribution pension plans administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement System, P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy**

***Defined Benefit Plan***

Employer contributions to the system result from implementing the effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

***Defined Contribution Plan***

Employer contributions to the system are dependent on the plan elected by the participant.

***Employee Contributions***

Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging for 0 to 7% of gross wages.

NOTES TO FINANCIAL STATEMENTS - Continued

**Employer Contributions**

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate  
Active Members and Qualified Participants - Effective February 1, 2013

	<u>Basic/MIP with Premium Subsidy</u>	<u>Pension Plus with Premium Subsidy</u>	<u>Pension Plus with PHF</u>	<u>Pension Plus to DC with PHF</u>	<u>Basic/MIP to DC with Premium Subsidy</u>	<u>Basic/MIP to DC with PHF</u>	<u>Basic/MIP with PHF</u>
<b>Defined Benefit Plan Contributions:</b>							
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
<b>Defined Contribution Plan Contributions:</b>							
Employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

Fiscal Year 2013-2014 Employer Contribution Rate  
Active Members and Qualified Participants - Effective October 1, 2013

	<u>Basic/MIP with Premium Subsidy</u>	<u>Pension Plus with Premium Subsidy</u>	<u>Pension Plus with PHF</u>	<u>Pension Plus to DC with PHF</u>	<u>Basic/MIP to DC with Premium Subsidy</u>	<u>Basic/MIP to DC with PHF</u>	<u>Basic/MIP with PHF</u>
<b>Defined Benefit Plan Contributions:</b>							
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
<b>Defined Contribution Plan Contributions:</b>							
Employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

The School District's contributions to the MPSERS Defined Benefit Plan for the years ended June 30, 2014, 2013 and 2012 were \$519,063, \$437,210, and \$400,949, respectively, which is equal to the required contribution for each year.

The School District's contributions to the MPSERS Defined Contribution Plan was \$7,129 and \$1,975 for the years ended June 30, 2014 and June 30, 2013.

### **Post Employment Benefits**

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

### **NOTE I - COMMITMENTS AND CONTINGENCIES**

#### *Federal and State Grants*

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

#### *Collectively Bargained Employment Agreements*

The teachers of the School District are organized under the Onekama Education Association. The Board of Education and the Onekama Education Association have a contract through August 31, 2014.

### **NOTE J - IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES**

In June 2012, the GASB issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. GASB 68 is effective for fiscal years beginning after June 15, 2014.

GASB 68 requires employers to report net pension benefits as a liability in the Statement of Net Position. The Statement requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. An estimate of the School District's net pension liability at June 30, 2014 is \$4,548,000.

**REQUIRED SUPPLEMENTARY INFORMATION**



# Onekama Consolidated Schools

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variances - Positive (Negative)	
	<u>Original</u>	<u>Final</u>		<u>Original to Final Budget</u>	<u>Final Budget To Actual</u>
<b>Revenues</b>					
Local and intermediate sources	\$ 2,776,832	\$ 2,815,974	\$ 2,816,208	\$ 39,142	\$ 234
State revenues	428,702	853,186	856,041	424,484	2,855
Federal revenues	139,064	137,355	118,956	(1,709)	(18,399)
Other	<u>24,519</u>	<u>23,656</u>	<u>15,406</u>	<u>(863)</u>	<u>(8,250)</u>
Total revenues	<u>3,369,117</u>	<u>3,830,171</u>	<u>3,806,611</u>	<u>461,054</u>	<u>(23,560)</u>
<b>Expenditures</b>					
Instruction					
Basic programs	1,630,719	1,913,984	1,885,025	(283,265)	28,959
Added needs	<u>394,663</u>	<u>431,178</u>	<u>406,982</u>	<u>(36,515)</u>	<u>24,196</u>
Total instruction	<u>2,025,382</u>	<u>2,345,162</u>	<u>2,292,007</u>	<u>(319,780)</u>	<u>53,155</u>
Support services					
Pupil support	49,875	66,679	63,725	(16,804)	2,954
Instruction staff support	15,208	14,384	11,553	824	2,831
General administration	203,349	212,506	208,449	(9,157)	4,057
School administration	183,511	197,764	190,518	(14,253)	7,246
Business services	114,881	112,178	111,043	2,703	1,135
Operations and maintenance	515,447	534,690	501,319	(19,243)	33,371
Transportation	175,254	178,652	171,379	(3,398)	7,273
Other central support	<u>217,392</u>	<u>196,859</u>	<u>196,270</u>	<u>20,533</u>	<u>589</u>
Total support services	<u>1,474,917</u>	<u>1,513,712</u>	<u>1,454,256</u>	<u>(38,795)</u>	<u>59,456</u>
Community services	<u>6,000</u>	<u>8,700</u>	<u>8,140</u>	<u>(2,700)</u>	<u>560</u>
Total expenditures	<u>3,506,299</u>	<u>3,867,574</u>	<u>3,754,403</u>	<u>(361,275)</u>	<u>113,171</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(137,182)	(37,403)	52,208	99,779	89,611
Other financing uses					
Other financing uses	<u>(25,762)</u>	<u>(25,762)</u>	<u>(25,975)</u>	<u>-</u>	<u>(213)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(162,944)	(63,165)	26,233	99,779	89,398
Fund balance, beginning of year	<u>489,959</u>	<u>662,762</u>	<u>662,762</u>	<u>172,803</u>	<u>-</u>
Fund balance, end of year	<u>\$ 327,015</u>	<u>\$ 599,597</u>	<u>\$ 688,995</u>	<u>\$ 272,582</u>	<u>\$ 89,398</u>

**COMBINING FINANCIAL STATEMENTS  
OF NON-MAJOR GOVERNMENTAL FUNDS**

## Onekama Consolidated Schools

### COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2014

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>		<u>Capital Projects Funds</u>	<u>Total</u>
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2004 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>	<u>2007-08 Capital Projects Fund</u>	<u>Non-Major Governmental</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 42,138	\$ 18,926	\$ 58,281	\$ 42,968	\$ -	\$ 162,313
Due from other governments	3,966	-	-	-	-	3,966
Accounts receivables	138	2,118	-	-	-	2,256
Due from other funds	2,731	-	-	-	-	2,731
Prepaid expenditures	<u>1,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,080</u>
Total assets	<u><u>\$ 50,053</u></u>	<u><u>\$ 21,044</u></u>	<u><u>\$ 58,281</u></u>	<u><u>\$ 42,968</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 172,346</u></u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ 285	\$ -	\$ -	\$ -	\$ 285
Salaries payable and related liabilities	557	2,039	-	-	-	2,596
Unearned revenue	3,390	2,169	-	-	-	5,559
Due to other funds	<u>1,107</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,118</u>
Total liabilities	<u>5,054</u>	<u>4,504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,558</u>
<b>FUND BALANCES</b>						
Nonspendable - prepaids	1,080	-	-	-	-	1,080
Restricted - Debt Service	-	-	58,281	42,968	-	101,249
Restricted - Food Service	43,919	-	-	-	-	43,919
Committed - school-based activities	<u>-</u>	<u>16,540</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,540</u>
Total fund balances	<u>44,999</u>	<u>16,540</u>	<u>58,281</u>	<u>42,968</u>	<u>-</u>	<u>162,788</u>
Total liabilities and fund balances	<u><u>\$ 50,053</u></u>	<u><u>\$ 21,044</u></u>	<u><u>\$ 58,281</u></u>	<u><u>\$ 42,968</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 172,346</u></u>

## Onekama Consolidated Schools

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>		<u>Capital Projects Funds</u>	Total Non-Major Governmental
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2004 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>	<u>2007-2008 Capital Projects Fund</u>	
Revenues						
Property taxes	\$ -	\$ -	\$ 390,590	\$ 254,012	\$ -	\$ 644,602
Interest	8	73	456	56	-	593
State revenues	6,709	-	-	-	-	6,709
Federal revenues	127,440	4,022	-	-	-	131,462
Other	<u>77,555</u>	<u>164,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,721</u>
Total revenues	<u>211,712</u>	<u>168,261</u>	<u>391,046</u>	<u>254,068</u>	<u>-</u>	<u>1,025,087</u>
Expenditures						
Food Service	199,423	-	-	-	-	199,423
Leaps and Bounds	-	165,789	-	-	-	165,789
Debt Service						
Principal	-	-	325,000	85,000	-	410,000
Interest	-	-	72,178	163,810	-	235,988
Other	<u>-</u>	<u>-</u>	<u>375</u>	<u>750</u>	<u>-</u>	<u>1,125</u>
Total expenditures	<u>199,423</u>	<u>165,789</u>	<u>397,553</u>	<u>249,560</u>	<u>-</u>	<u>1,012,325</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	12,289	2,472	(6,507)	4,508	-	12,762
Other financing sources						
Interfund transfers in	<u>1,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,400</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	13,689	2,472	(6,507)	4,508	-	14,162
Fund balances, beginning of year	<u>31,310</u>	<u>14,068</u>	<u>64,788</u>	<u>38,460</u>	<u>-</u>	<u>148,626</u>
Fund balances, end of year	<u>\$ 44,999</u>	<u>\$ 16,540</u>	<u>\$ 58,281</u>	<u>\$ 42,968</u>	<u>\$ -</u>	<u>\$ 162,788</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Onekama Consolidated Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Onekama Consolidated Schools*** (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated September 29, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

*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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

**Condition:** As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

**Cause:** This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

**Effect:** As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

**Management's Response:** The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***School District's Response to Findings***

The School District's response to the findings identified in our audit is describe above. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

September 29, 2014