Onekama Consolidated Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

Dennis, Gartland & Niergarth

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Onekama Consolidated School's (the "School District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. It is to be read in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

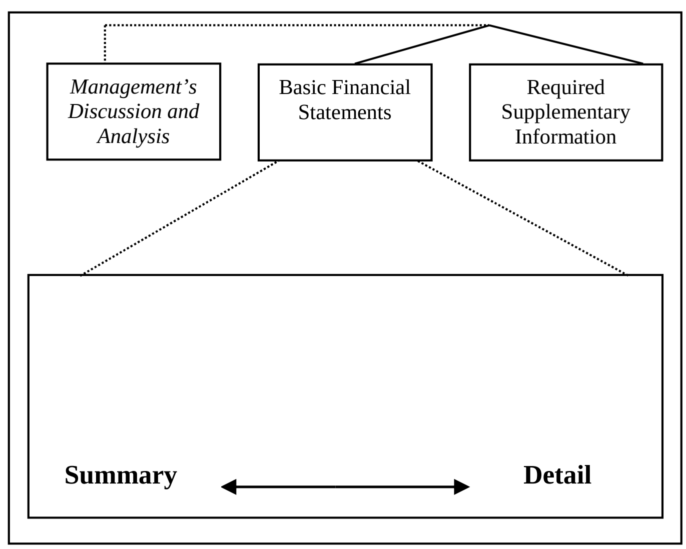
- The School District's financial status decreased during the year due to an increase in expenditures, specifically bus maintenance and building repairs and maintenance. The School District was unable to pass a construction bond therefore the necessary building expenditures are paid out of the General Fund.

- The State of Michigan foundation grant increased by $50 from $7,959 to $8,009.

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 School District:

Figure A-1
Onekama Consolidated Schools Annual Financial Report



- 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 School District, reporting the School 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 School 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 School 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-2

Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: 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 School District's financial statements, including the portion of the School 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 School District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include *all* of the School 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 School District's *net position* and how they have changed. Net assets, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or *position*.

- Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the School District, consideration must be given to additional nonfinancial factors such as changes in the School District's property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities* – Most of the School 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 School District's *funds*, focusing on its most significant or "major" funds – not the School District as a whole. Funds are accounting devices the School 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 School 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 School District has two kinds of funds:

- *Governmental funds*: Most of the School 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 School 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 School District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The School 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 School District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

For the fiscal year ended June 30, the results of operations, on a district wide basis, were as follows:

Table A-3

	2014 *	2015
Current and other assets	$ 1,472,609	$ 1,241,776
Capital assets	15,769,077	15,569,732
Total assets	17,241,686	16,811,508
Deferred outflows of resources	-	494,985
Total assets and deferred outflows of resources	$ 17,241,686	$ 17,306,493
Long-term debt outstanding	$ 14,318,030	$ 13,912,423
Other liabilities	994,891	1,096,791
Net pension obligation	-	4,622,464
Total liabilities	15,312,921	19,631,678
Deferred inflows of resources	-	511,015
Net position		
Invested in property and equipment, net of related debt	967,635	1,116,603
Restricted for		
Food Service	43,919	43,468
Debt Service	76,126	76,567
Unrestricted/(deficit)	841,085	(4,072,838)
Total net position	1,928,765	(2,836,200)
Total liabilities, deferred inflows of resources and net position	$ 17,241,686	$ 17,306,493

For the fiscal year ended June 30, the results of operations, on a district-wide basis were as follows:

Table A-4

Revenues	2014 *	2015
Property Taxes, levied for general purposes	$ 2,725,214	$ 2,765,345
Property Taxes, levied for debt services	1,191,409	1,201,638
State aid not restricted to specific purposes	656,430	728,408
Interest and other	62,266	113,516
Charges for services	292,687	288,426
Operating grants/contributions	463,303	459,809
Total revenues	5,391,309	5,557,142
Expenses		
Instruction	2,306,129	2,470,306
Support services	1,454,258	1,625,801
Community services	8,140	8,593
Food services	199,423	220,812
Leaps and bounds	165,789	162,684
Other	4,009	9,228
Interest on long-term debt	644,294	621,764
Depreciation-unallocated	483,606	529,135
Total expenses	5,265,648	5,648,323
Change in net position	125,661	(91,181)
Net position - Beginning of year	1,803,104	(2,745,019)
Net position - End of year	$ 1,928,765	$ (2,836,200)

* The School District implemented GASB 68 during the year ended June 30, 2015. The impact on the statement of net position and expenses for the year ended June 30, 2014 is unknown and, therefore, 2015 and 2014 are not comparable for items related to GASB 68.

PENSION EXPENSE

GASB 68 now requires the School District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the School District's change in net position. Based on various factors, the School District may report an increase or decrease in net position depending on whether the School District's proportionate share of the net position liability increases or decreases in any given year. For the year ended June 30, 2015, the School District recorded $4,622,464 as their proportionate share of the net pension liability

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the School District as a whole is reflected in its governmental funds as well. As the School District completed the year, its governmental funds reported combined fund balances of $945,616; a decrease of $231,541 over last year's ending fund balances of $1,177,157.

General Fund Budgetary Highlights

Over the course of the year, the School 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 $273,087, the actual results for the year show a decrease of $163,087 due to final adjustments to personnel and conservative budgeting of expense line items.
- Actual revenues were $3,960,704 or $25,942 less than expected, due primarily to final grant allocations.
- Actual expenditures were $4,425,464 or $85,001 above budget, due primarily to conservative budgeting of supplies and utilities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2014-2015 school year totaled $19,557,044. During the year, the School District invested an additional $329,790 in a bus and equipment. A summary of capital assets follows:

Table A-5
OCS's Capital Assets

	2014	Additions	Deletions	2015
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	83,083	(12,860)	453,283
Furniture and equipment	792,101	246,707	-	1,038,808
Gross capital assets	19,642,080	329,790	(12,860)	19,959,010
Less accumulated depreciation:	(3,873,003)	(529,135)	12,860	(4,389,278)
Net governmental capital assets	$ 15,769,077	$ (199,345)	$ -	$ 15,569,732

Long-term Debt

At year-end the District had $14,115,000 in general obligation bonds and $258,703 in capital lease and note payable obligations.

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

	2014	Net Additions/ (Payments)	2015
General obligation debts			
(financed with property taxes)	$ 14,695,000	$ (580,000)	$ 14,115,000
Notes payable	-	-	-
Note Payable/Capital lease	22,274	236,429	258,703
Unamortized bond premium	84,168	(4,742)	79,426
Early retirement liability	-	53,825	53,825
Accumulated sick & vacation	112,372	(9,509)	102,863
Total	$ 14,913,814	$ (303,997)	$ 14,609,817

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The 2015-2016 foundation allowance will increase by a range from $70 - $140. Student enrollment is always fluctuating and a concern and will be closely monitored.

- The Board of Education and the Onekama Education Association have a contract through August, 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 School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Onekama Consolidated School District Business Office at 772 E Parkdale Ave, Manistee, MI, 49660.

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

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, 2015, 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

415 Munson Avenue | P.O. Box 947 | Traverse City, Michigan 49685-0947
231-946-1722 ph | 231-946-2762 fax | www.dgncpa.com

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, 2015, 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.

Emphasis of Matter

Accounting Change

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension Plans*, during the year ended June 30, 2015.

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 33, 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 non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major 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 non-major 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 October 29, 2015, 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

October 29, 2015

Onekama Consolidated Schools

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities
ASSETS AND DEFERRED OUTFLOW OF RESOURCES	
ASSETS	
Current assets	
Cash and equivalents	$ 1,018,559
Other receivables	3,436
Due from other governments	197,978
Prepaid expenses	21,803
Total current assets	1,241,776
Non-current assets	
Capital assets, net of accumulated depreciation	15,569,732
Total assets	16,811,508
DEFERRED OUTFLOWS OF RESOURCES - pension obligations	494,985
Total assets and deferred outflows of resources	$ 17,306,493
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	$ 13,347
Salaries payable and related liabilities	277,512
Accrued interest	103,237
Unearned revenue	5,301
Current portion of long-term liabilities	697,394
Total current liabilities	1,096,791
Non-current portion of long-term liabilities	13,912,423
Net pension obligation	4,622,464
Total liabilities	19,631,678
DEFERRED INFLOWS OF RESOURCES - pension obligations	511,015
NET POSITION	
Invested in capital assets, net of related debt	1,116,603
Restricted for	
Debt Service	76,567
Food Service	43,468
Unrestricted (deficit)	(4,072,838)
Total net position	(2,836,200)
Total liabilities, deferred inflows of resources and net position	$ 17,306,493

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

Onekama Consolidated Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Program	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Position: Governmental Activities
Governmental activities					
Instruction	$ 2,470,306	$ -	$ 282,260	$ -	$ (2,188,046)
Supporting Services	1,625,801	55,214	35,634	-	(1,534,953)
Community Services	8,593	-	-	-	(8,593)
Food Service	220,812	72,560	141,915	-	(6,337)
Leaps and Bounds	162,684	160,652	-	-	(2,032)
Other	9,228	-	-	-	(9,228)
Interest on long-term debt	621,764	-	-	-	(621,764)
Depreciation, unallocated	529,135	-	-	-	(529,135)
Total governmental activities	$ 5,648,323	$ 288,426	$ 459,809	$ -	(4,900,088)
General purpose revenues					
Property taxes					
Levied for general purposes					2,765,345
Levied for Debt Service					1,201,638
State school aid - unrestricted					728,408
Investments and other					113,516
Total general purpose revenues					4,808,907
Change in net position					(91,181)
Net position, beginning of year, as restated					(2,745,019)
Net position, end of year					$ (2,836,200)

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

Onekama Consolidated Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	Major Fund				Total
	General Fund	Capital Projects Fund	2007 Debt Retirement Fund	Non-major Governmental Funds	Non-major Governmental Funds
ASSETS					
Cash and equivalents	$ 597,525	$ 175,655	$ 77,114	$ 168,265	$ 1,018,559
Due from other governments	192,475	-	-	5,503	197,978
Accounts receivables	-	-	-	3,436	3,436
Due from other funds	2,785	-	-	1,323	4,108
Prepaid expenditures	20,658	-	-	1,145	21,803
Total assets	$ 813,443	$ 175,655	$ 77,114	$ 179,672	$ 1,245,884
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 11,079	$ -	$ -	$ 2,268	$ 13,347
Salaries payable and related liabilities	275,039	-	-	2,473	277,512
Due to other funds	967	-	-	3,141	4,108
Unearned revenue	450	-	-	4,851	5,301
Total liabilities	287,535	-	-	12,733	300,268
FUND BALANCES					
Nonspendable - prepaids	20,658	-	-	1,145	21,803
Restricted					
Debt Service	-	-	77,114	102,690	179,804
Food Service	-	-	-	42,323	42,323
Committed					
Subsequent year expenditures	64,442	-	-	-	64,442
Leaps and Bounds	-	-	-	20,781	20,781
Assigned					
Building improvements	-	175,655	-	-	175,655
Compensated absences	102,863	-	-	-	102,863
Early retirement incentives	53,825	-	-	-	53,825
Unassigned	284,120	-	-	-	284,120
Total fund balances	525,908	175,655	77,114	166,939	945,616
Total liabilities and fund balances	$ 813,443	$ 175,655	$ 77,114	$ 179,672	

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 $19,959,010 and the accumulated depreciation is $4,389,278.		15,569,732
Deferred outflows of resources is not a financial resource and, therefore, is not reported as an asset in governmental funds.		494,985
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	14,115,000	
Notes payable	94,315	
Capital lease	164,388	
Unamortized bond premium	79,426	
Accrued interest on bonds	103,237	
Early retirement incentive payable	53,825	
Accumulated leave liability	102,863	
Net pension obligation	4,622,464	(19,335,518)
Deferred inflows of resources is not a financial resource and, therefore, is not reported as a liability in governmental funds.		(511,015)
Total net position - governmental activities		$ (2,836,200)

Onekama Consolidated Schools

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

Year Ended June 30, 2015

	Major Funds				
	General Fund	Capital Projects Fund	2007 Debt Retirement Fund	Non-major Governmental Funds	Non-major Governmental Funds
Revenues					
Property taxes	$ 2,765,344	$ -	$ 568,028	$ 633,610	$ 3,966,982
Interest	425	360	729	587	2,101
State revenues	926,715	-	-	9,758	936,473
Federal revenues	119,957	-	-	138,410	258,367
Other	148,263	8,453	-	236,503	393,219
Total revenues	3,960,704	8,813	568,757	1,018,868	5,557,142
Expenditures					
Instruction	2,451,802	-	-	-	2,451,802
Supporting Services	1,616,027	-	-	-	1,616,027
Community Services	8,593	-	-	-	8,593
Food Service	-	-	-	220,812	220,812
Leaps and Bounds	-	-	-	162,684	162,684
Other	2,500	-	-	-	2,500
Debt Service					
Principal	73,137	-	170,000	410,000	653,137
Interest	5,861	-	399,424	221,639	626,924
Other	-	-	751	1,102	1,853
Capital outlay	349,042	-	-	-	349,042
Total expenditures	4,506,962	-	570,175	1,016,237	6,093,374
REVENUES OVER (UNDER) EXPENDITURES	(546,258)	8,813	(1,418)	2,631	(536,232)
Other financing sources (uses)					
Interfund transfers in	80,000	-	-	1,520	81,520
Interfund transfers out	(1,520)	(80,000)	-	-	(81,520)
Proceeds from loan and capital lease	304,691	-	-	-	304,691
Total other financing sources (uses)	383,171	(80,000)	-	1,520	304,691
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(163,087)	(71,187)	(1,418)	4,151	(231,541)
Fund balances, beginning of year	688,995	246,842	78,532	162,788	1,177,157
Fund balances, end of year	$ 525,908	$ 175,655	$ 77,114	$ 166,939	$ 945,616

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, 2015

Total net change in fund balances - governmental funds			$ (231,541)
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	$ 329,790	
	Depreciation expense	(529,135)	(199,345)
Change in deferred outflows of resources for pension obligation.			494,985
In the statement of activities, certain operating expenses - compensated absences and early retirement incentives - 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 less than the amounts used by $(9,509). Early retirement incentives paid were less than amounts earned by $53,825.			(44,316)
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.			648,262
Some of the capital assets acquired this year were financed with loan proceeds. The amount financed by the proceeds, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net position.			(304,691)
Amortization of bond premium.			4,742
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.			418
Decrease in net pension liability.			51,320
Change in deferred inflows of resources for pension obligation.			(511,015)
Changes in net position of governmental activities			$ (91,181)

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

Onekama Consolidated Schools

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 97,648
LIABILITIES	
Due to student groups	$ 97,648

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, 2015, the School District employed 24 professional staff and 31 non-professional staff, and had 432 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, 2015.

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.

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.

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.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period.

Deferred Inflows and Outflows

In addition to assets and liabilities, the statement of financial position includes separate sections for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) of inflows of resources (revenue) until then. The School District's items that qualify for reporting in this category, are the items related to the pension obligation. See Note J for details of deferred outflows and inflows related to the pension obligation.

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.

Pension Plan

For purposes of measuring the net position, liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 - ACCOUNTING CHANGES

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 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. GASB 68 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 requires employers to report net pension benefits as a liability in the statement of net position. GASB 68 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. GASB 68 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability.

The School District implemented GASB 68 during the year by retroactive restatement of June 30, 2014 net position, as follows:

Net position at June 30, 2014, *as originally stated*	$ 1,928,765
Record net pension liability at June 30, 2014	(4,673,784)
Net position at June 30, 2014, *as restated*	$ (2,745,019)

NOTE C - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2015, the School District was not in compliance with the Act as follows.

	Budget	Actual	Variance
General Fund			
Other central support	$ 278,056	$ 491,489	$ 213,433

NOTE D - CASH AND EQUIVALENTS

At June 30, 2015, the School District's cash and equivalents included the following:

	Cash and Equivalents
Bank deposits	$ 639,256
Investments	476,951
	$ 1,116,207

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, 2015, $353,281 of the School District's bank balance of $603,281 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.

Investments at June 30, 2015 consisted of the following:

		Investment Maturities (in years)			
Investment Type	Cost	Current	1-5	6-10	More than 10
MILAF	$ 476,951	$ 476,951	$ -	$ -	$ -

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 fail 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 E - 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 deferred inflows of resources. 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 $152.27 million and $6 per $1,000 of equalized commercial personal property value of $2.26 million was levied for general operating purposes. For Debt Service, $4.35 per $1,000 of total equalized property value of $276.90 million was levied for bonded debt repayments by the Debt Service Fund.

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 are deferred in the governmental fund financial statements and include unearned revenue and deferred inflow of resources. 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, 2015 are as follows:

Due from the State of Michigan	
State aid	$ 172,294
Due from Federal grants	21,443
Due from other sources	4,241
	$ 197,978

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2014	Additions	Retirements	June 30, 2015
Buildings and improvements	$ 18,064,953	$ -	$ -	$ 18,064,953
Buses and vehicles	383,060	83,083	(12,860)	453,283
Furniture and equipment	792,101	246,707	-	1,038,808
Total depreciable assets	19,240,114	329,790	(12,860)	19,557,044
Less accumulated depreciation	(3,873,003)	(529,135)	12,860	(4,389,278)
Land	401,966	-	-	401,966
Total capital assets, net	$ 15,769,077	$ (199,345)	$ -	$ 15,569,732

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

Unallocated	$ 529,135

NOTE G - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2015 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
General obligation bonds	$ 14,695,000	$ -	$ (580,000)	$ 14,115,000	$ 600,000
Notes payable	22,274	83,083	(11,042)	94,315	27,200
Capital lease	-	221,608	(57,220)	164,388	53,610
Unamortized bond premium	84,168	-	(4,742)	79,426	4,742
Early retirement liability	-	53,825	-	53,825	11,842
Accumulated leave liability	112,372	-	(9,509)	102,863	-
Long-term liabilities	$ 14,913,814	$ 358,516	$ (662,513)	$ 14,609,817	$ 697,394

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.

This space left blank intentionally.

At June 30, 2015, 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%.	$ 1,240,000
$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.	9,045,000
$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.	3,830,000
Total general obligation bonds	14,115,000
Note payable for a bus with a cost of $74,015; due in annual installments of $11,330 through August 2019; interest rate of 1.99%; due semi-annually. Secured by the purchased bus.	11,232
Note payable for a bus with a cost of $83,083; due in annual installments of $17,622 through August 2019; interest rate of 1.99%; due annually. Secured by the purchased bus.	83,083
Capital lease for computers with a cost of $221,608; due in annual installments of $57,220 through August 2019; including interest at a rate of 2.19%. Secured by the computers leased.	164,388
Total general obligation bonds, notes payable and capital leases	14,373,703
Unamortized bond premium	79,426
Early retirement liability	53,825
Accumulated leave liability	102,863
Total long-term debt	$14,609,817

Total annual requirements to amortize general obligation bonds, notes payable outstanding and capital leases payable as of June 30, 2015 are as follows:

Years Ending June 30,	Principal	Interest
2016	$ 680,810	$ 603,077
2017	696,074	580,148
2018	722,600	552,281
2019	696,941	522,897
2020	727,278	492,552
2021-2025	4,000,000	1,966,732
2026-2030	4,760,000	1,071,926
2031-2035	2,090,000	135,096
	$14,373,703	$ 5,924,709

Interest expense for the year ended June 30, 2015 was $621,764, and interest paid was $626,924.

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.

Early Retirement Incentives

The School District has an early retirement incentive program for eligible teachers. Under the program, the teachers are scheduled to receive contributions of $5,000 to $6,000 per year depending on experience. As of June 30, 2015, the amount due to teachers in the program was $53,825.

NOTE H - 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 Onekama Consolidated Schools. At June 30, 2015, 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.

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 I - 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.

	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General	$ 2,785	$ 967
Other Governmental Funds		
Food Service	356	2,785
Leaps and Bounds	967	356
	$ 4,108	$ 4,108

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:

Transfer in	Amount	Transfer out	Amount
Major Governmental Funds		Major Governmental Funds	
General Fund	$ 80,000	General Fund	$ 1,520
		Capital Projects Fund	80,000
Other Governmental Funds			
Food Service Fund	1,520		
	$ 81,520		$ 81,520

NOTE J - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/orsschools/0,1607,7-20636585---,00.html. ,00.html.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by the State statute, which may be amended. Public act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former members' rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date,* which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Non-Duty and Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty or non-duty related cause may be eligible for a disability pension, subject age, service and other requirements.

Survivor Benefit

A non-duty survivor pension is available subject to certain requirements of the plan.

Funding Policy

Defined Benefit Plan

The School District participates on a contributory basis, as described above under "Benefits Provided." The School District is required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Defined Contribution Plan

Employer contributions to the Plan 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 from 0% to 7% of gross wages.

Employer Contributions

Employer contributions to the system are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of the cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 23 year period for the 2013 fiscal year.

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 July 1 - September 30, 2014

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined Contribution Plan Contributions:							
Employee 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 2014-2015 Employer Contribution Rate
Active Members and Qualified Participants - Effective October 1, 2014 - June 30, 2015

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	23.07%	21.99%	21.99%	18.76%	18.76%	18.76%	23.07%
Health contributions	2.71%	2.71%	2.2%	2.2%	2.71%	2.2%	2.2%
Defined Contribution Plan Contributions:							
Employee 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 year ended June 30, 2015 was $405,928, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was $1,872,695.

The School District's contributions to the MPSERS Defined Contribution Plan were $8,977, for the year ended June 30, 2015, which is equal to the pension expense recognized by the School District for the year.

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. The School District's required contributions for post-employment health care benefits were $66,391 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities

At June 30, 2015, the School District reported a liability of $4,622,464 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.02099%.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the School District recognized pension expense of $374,437. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	170,559	-
Net difference between projected and actual earnings on pension plan investments	-	511,015
Changes in proportion and differences between School District contributions and proportionate share of contributions	16	-
School District contributions subsequent to the measurement date	324,410	-
Total	$ 494,985	$ 511,015

From the above table, $324,410 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year Ended June 30,	Amount
2016	$ (83,399)
2017	(83,399)
2018	(83,399)
2019	(90,243)

10-Year Trend Information - Defined Benefit Plan

Schedule of School District's Proportionate Share of Net Pension Liability	9/30/2014
School District's proportion of collective net pension liability	0.02099 %
School District's proportionate share of collective net pension liability	$ 4,622,464
School District's covered-employee payroll	$ 1,793,122
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	257.79 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

Schedule of School District's Contributions	6/30/2015
Contractually required employer contributions	$ 405,928
School District contributions recognized by the Plan	405,928
Contributions difference	-
Contributions difference as a percentage of contractually required employer contributions	- %
School District's covered-employee payroll	$ 1,872,695
Contributions as a percentage of covered-employee payroll	21.68 %

Actuarial Assumptions

Valuation Assumptions

The rate of investment return was 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

The assumed real return is the rate of return in excess of wage inflation. Considering other assumptions used in the valuation, the 8.0% nominal rate translates to a net real return of 4.5% a year for the Non-Hybrid groups. Considering other assumptions used in the valuation, the 7.0% nominal rate translates to a net real return of 3.5% a year for the Hybrid group.

The rate of pay increase used for individual members is 3.5%. This assumption is used to project a member's current pay to the pay upon which System benefits will be based. The current assumption was first used for the September 30, 2004 valuation of the System.

Actuarial Cost Method - Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected *covered* pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities - Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) percent-of-payroll contributions *over* a reasonable period of future years.

Amortization of UAAL resulting from the Early Retirement Incentive (ERi) program of 2010 - It has been reported that 1.36% of payroll will be contributed beginning in fiscal year 2013 for a 10-year period to amortize the unfunded actuarial accrued liability (“UAAL”) associated with the ERi program of 2010. In order to avoid duplication of the employer contributions, the present value of future ERi amortization payments is subtracted from the UAAL to determine the remaining UAAL contribution.

Actuarial Value of System Assets - The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in *over* a closed five year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets was reset to market value as of September 30, 2006, with five-year smoothing restarted at that time. The actuarial value of assets is developed separately for the Non-Hybrid and Hybrid portions of the System. The total actuarial value of assets is the sum of these two components.

Mortality Assumptions

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2013. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8 %
Private Equity Pools	18.0	8.5
International Equity Pools	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Real Return, Opportunistic and Absolute Pools	15.5	6.3
Short-Term Investment Pools	2.0	(0.2)
	100.0 %	

*Long-term rate of return does not include 2.5% inflation.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

- The expected rate of return on pension plan investments is 8.0%.
- The municipal bond rate is 3.480% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve).
- The resulting single discount rate is 8.0%.
- The Plan Fiduciary Net Position is projected to be sufficient to make Projected Benefit Payments until 2114.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0%) or 1 percentage point higher (9.0%) than the current rate:

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
School District's proportionate share of net pension liability	$ 6,094,317	$ 4,622,464	$ 3,382,407

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report, available here: http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html.

Payables to the Pension Plan

The School District reported $60,056 payable to the plan at June 30, 2015 for legally required defined benefit and defined contribution plan contributions.

NOTE K - 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, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Onekama Consolidated Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final Budget	Final Budget To Actual
Revenues					
Local and intermediate sources	$ 2,834,530	$ 2,870,633	$ 2,884,767	$ 36,103	$ 14,134
State revenues	824,241	926,218	926,715	101,977	497
Federal revenues	137,355	161,433	119,957	24,078	(41,476)
Other	27,115	28,362	29,265	1,247	903
Total revenues	3,823,241	3,986,646	3,960,704	163,405	(25,942)
Expenditures					
Instruction					
Basic programs	1,927,535	2,103,602	2,041,654	(176,067)	61,948
Added needs	452,960	453,335	410,148	(375)	43,187
Total instruction	2,380,495	2,556,937	2,451,802	(176,442)	105,135
Support services					
Pupil support	67,891	62,552	58,947	5,339	3,605
Instruction staff support	14,574	20,126	16,856	(5,552)	3,270
General administration	215,691	210,091	206,253	5,600	3,838
School administration	216,661	224,681	222,637	(8,020)	2,044
Business services	116,266	120,552	119,894	(4,286)	658
Operations and maintenance	519,740	569,756	564,007	(50,016)	5,749
Transportation	169,755	288,712	284,986	(118,957)	3,726
Other central support	213,566	278,056	491,489	(64,490)	(213,433)
Total support services	1,534,144	1,774,526	1,965,069	(240,382)	(190,543)
Community services	6,500	9,000	8,593	(2,500)	407
Total expenditures	3,921,139	4,340,463	4,425,464	(419,324)	(85,001)
REVENUES OVER (UNDER) EXPENDITURES	(97,898)	(353,817)	(464,760)	(255,919)	(110,943)
Other financing uses					
Interfund transfers in	35,000	80,000	80,000	45,000	-
Other financing uses	(86,050)	(83,270)	(83,018)	2,780	252
Proceeds from capital lease	-	84,000	304,691	84,000	220,691
Total other financing sources (uses)	(51,050)	80,730	301,673	131,780	220,943
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(148,948)	(273,087)	(163,087)	(124,139)	110,000
Fund balance, beginning of year	662,762	688,995	688,995	26,233	-
Fund balance, end of year	$ 513,814	$ 415,908	$ 525,908	$ (97,906)	$ 110,000

COMBINING FINANCIAL STATEMENTS
OF NON-MAJOR GOVERNMENTAL FUNDS

Onekama Consolidated Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Funds		Debt Retirement Funds		
	Food Service	Leaps and Bounds	2004 Debt Retirement Fund	2008 Debt Retirement Fund	Total Non-Major Governmental
ASSETS					
Cash and cash equivalents	$ 43,492	$ 22,083	$ 61,271	$ 41,419	$ 168,265
Due from other governments	5,503	-	-	-	5,503
Accounts receivables	-	3,436	-	-	3,436
Due from other funds	356	967	-	-	1,323
Prepaid expenditures	1,145	-	-	-	1,145
Total assets	$ 50,496	$ 26,486	$ 61,271	$ 41,419	$ 179,672
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 1,979	$ 289	$ -	$ -	$ 2,268
Salaries payable and related liabilities	595	1,878	-	-	2,473
Unearned revenue	1,669	3,182	-	-	4,851
Due to other funds	2,785	356	-	-	3,141
Total liabilities	7,028	5,705	-	-	12,733
FUND BALANCES					
Nonspendable - prepaids	1,145	-	-	-	1,145
Restricted - Debt Service	-	-	61,271	41,419	102,690
Restricted - Food Service	42,323	-	-	-	42,323
Committed - school-based activities	-	20,781	-	-	20,781
Total fund balances	43,468	20,781	61,271	41,419	166,939
Total liabilities and fund balances	$ 50,496	$ 26,486	$ 61,271	$ 41,419	$ 179,672

Onekama Consolidated Schools

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

Year Ended June 30, 2015

	Special Revenue Funds		Debt Retirement Funds		
	Food Service	Leaps and Bounds	2004 Debt Retirement Fund	2008 Debt Retirement Fund	Total Non-Major Governmental
Revenues					
Property taxes	$ -	$ -	$ 383,653	$ 249,957	$ 633,610
Interest	10	5	492	80	587
State revenues	9,758	-	-	-	9,758
Federal revenues	132,158	6,252	-	-	138,410
Other	75,835	160,668	-	-	236,503
Total revenues	217,761	166,925	384,145	250,037	1,018,868
Expenditures					
Food Service	220,812	-	-	-	220,812
Leaps and Bounds	-	162,684	-	-	162,684
Debt Service					
Principal	-	-	320,000	90,000	410,000
Interest	-	-	60,804	160,835	221,639
Other	-	-	351	751	1,102
Total expenditures	220,812	162,684	381,155	251,586	1,016,237
REVENUES OVER (UNDER) EXPENDITURES	(3,051)	4,241	2,990	(1,549)	2,631
Other financing sources					
Interfund transfers in	1,520	-	-	-	1,520
Interfund transfers out	-	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(1,531)	4,241	2,990	(1,549)	4,151
Fund balances, beginning of year	44,999	16,540	58,281	42,968	162,788
Fund balances, end of year	$ 43,468	$ 20,781	$ 61,271	$ 41,419	$ 166,939

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

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, 2015, 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 October 29, 2015.

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

October 29, 2015