

Onekama Consolidated Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2013

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	4
STATEMENT OF ACTIVITIES.....	5
BALANCE SHEET - GOVERNMENTAL FUNDS.....	6
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	7
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES	8
STATEMENT OF FIDUCIARY NET POSITION.....	9
NOTES TO FINANCIAL STATEMENTS.....	10
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND	23
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
BALANCE SHEET.....	25
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES.....	26
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27

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, 2013. 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 decreased during the year due to a drop in the student count. Due to the drop in student count the District reduced personnel mid-year to help with the deficit.
- The State of Michigan foundation grant remained unchanged at \$7,916.

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.

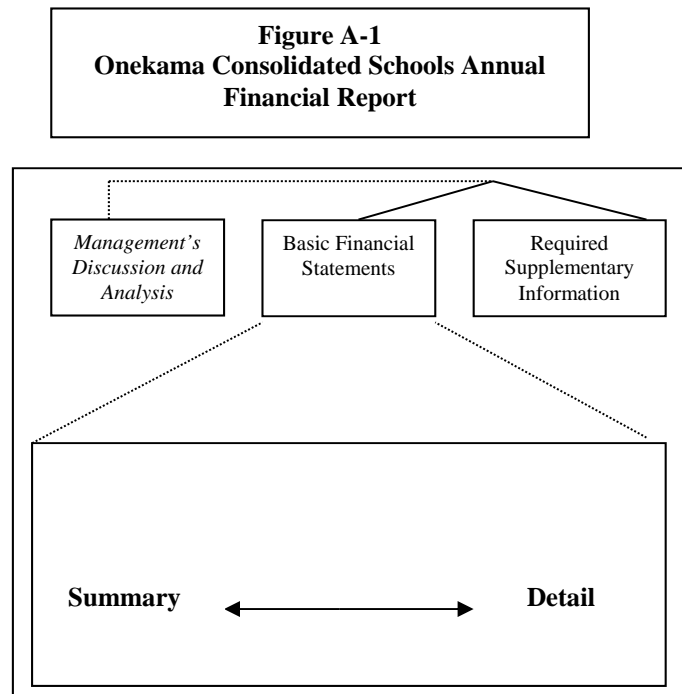


Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special 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 position
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 position – 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 position is 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* that 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, 2013 than they were the year before – increasing by \$194,551 to \$1,803,104.

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).

Table A-3		
	2012	2013
Current and other assets	\$ 1,458,148	\$ 1,498,559
Capital assets	16,674,716	16,209,618
Total assets	<u>18,132,864</u>	<u>17,708,177</u>
Long-term debt outstanding	15,290,263	14,899,691
Other liabilities	1,044,378	1,005,382
Total liabilities	<u>16,334,641</u>	<u>15,905,073</u>
Net position		
Invested in property and equipment, net of related debt	908,996	832,582
Restricted for		
Debt Service	63,048	83,672
Food Service	35,187	31,310
Unrestricted	601,322	855,540
Total net position	<u>\$ 1,608,553</u>	<u>\$ 1,803,104</u>

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

Table A-4
Statement of Activities

Revenues	2012	2013
Property Taxes, levied for general purposes	\$ 2,716,789	\$ 2,742,735
Property Taxes, levied for debt services	1,173,976	1,218,192
State aid not restricted to specific purposes	513,776	345,002
Interest and other	118,653	194,400
Charges for services	279,297	287,164
Operating grants/contributions	372,936	435,758
Capital grants/contributions	36,616	4,885
Total revenues	<u>5,212,043</u>	<u>5,228,136</u>
Expenses		
Instruction	2,090,558	2,089,912
Support services	1,408,886	1,424,412
Community services	6,197	5,027
Food services	180,396	190,686
Leaps and bounds	164,031	161,801
Other	12,224	17,388
Interest on long-term debt	682,425	664,068
Depreciation-unallocated	495,476	480,291
Total expenses	<u>5,040,193</u>	<u>5,033,585</u>
Increase in Net Position	171,850	194,551
Net Position - Beginning of year	1,626,373	1,608,553
Expense of bond issuance costs	<u>(189,670)</u>	<u>-</u>
Net Position - End of year - restated	<u>\$ 1,608,553</u>	<u>\$ 1,803,104</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 \$1,175,890; an increase of \$56,477 over last year's ending fund balances of \$1,119,413. The increase was mainly due to a surplus in the capital projects fund.

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 \$245,222 the actual results for the year show a decrease of \$72,417 due to final adjustments to personnel and conservative budgeting of expense line items.
- Actual revenues were \$3,521,619 or \$38,970 more than expected, due primarily to final State aid and property tax adjustments.
- Actual expenditures were \$3,569,034 or \$133,837 below budget, due primarily to conservative budgeting of supplies and utilities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2012-2013 school year totaled \$19,197,049. During the year, the District invested an additional \$15,193 in building improvements and equipment and retired a bus. A summary of capital assets follows:

Table A-5				
OCS's Capital Assets				
	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Capital assets being depreciated:				
Building and building improvements	18,054,960	9,993	-	18,064,953
Buses and other vehicles	430,095	-	(47,035)	383,060
Furniture and equipment	743,836	5,200	-	749,036
Gross capital assets	19,630,857	15,193	(47,035)	19,599,015
Less accumulated depreciation:	<u>(2,956,141)</u>	<u>(480,291)</u>	<u>47,035</u>	<u>(3,389,397)</u>
Net governmental capital assets	<u>\$ 16,674,716</u>	<u>\$ (465,098)</u>	<u>\$ -</u>	<u>\$ 16,209,618</u>

Long-term Debt

At year-end the District had \$15,255,000 in general obligation bonds and \$33,129 in note payable obligations.

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

	2012	Net Additions/ (Payments)	2013
General obligation debts			
(financed with property taxes)	\$ 15,795,000	\$ (540,000)	\$ 15,255,000
Note Payable/Capital lease	43,800	(10,671)	33,129
Unamortized bond premium	93,651	(4,742)	88,909
Early retirement liability	49,442	(49,442)	-
Accumulated Sick & Vacation	93,291	4,959	98,250
Total	\$ 16,075,184	\$ (599,896)	\$ 15,475,288

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 2013-2014 foundation allowance will increase by a range from \$30 - \$60. Student enrollment is always fluctuating and a concern and will be closely monitored.
- There will be a new section 22c for equity payments for districts with a foundation less than \$7,076. There is also a section 22j for performance based funding using FY 2012 MEAP and MEE data as the basis for the funding.
- The Board of Education and the Onekama Education Association had a contract through the year ended August 21, 2011 and are currently negotiating a current contract.

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 Onekama Consolidated School District Business Office at 772 E Parkdale Ave, Manistee, MI, 49660.



Business and Financial Advisors
Our clients' success – our business

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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, 2013, 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, 2013, 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 Changes

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013.

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 23, 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 October 8, 2012, 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 8, 2012

Onekama Consolidated Schools

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and equivalents	\$ 1,361,512
Other receivables	2,213
Due from other governments	<u>134,834</u>
Total current assets	1,498,559
Non-current assets	
Capital assets, net of accumulated depreciation	<u>16,209,618</u>
Total assets	<u>\$ 17,708,177</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 70,387
Salaries payable and related liabilities	227,292
Accrued interest	107,116
Unearned revenue	24,990
Current portion of long-term liabilities	<u>575,597</u>
Total current liabilities	1,005,382
Non-current portion of long-term obligations	<u>14,899,691</u>
Total liabilities	<u>15,905,073</u>
NET POSITION	
Invested in capital assets, net of related debt	832,582
Restricted for	
Debt Service	83,672
Food Service	31,310
Unrestricted	<u>855,540</u>
Total net position	<u>1,803,104</u>
Total liabilities and net position	<u>\$ 17,708,177</u>

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

Onekama Consolidated Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

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	\$ 2,089,912	\$ -	\$ 283,890	\$ -	\$ (1,806,022)
Supporting Services	1,424,412	56,890	39,786	4,885	(1,322,851)
Community Services	5,027	-	-	-	(5,027)
Food Service	190,686	72,478	112,082	-	(6,126)
Leaps and Bounds	161,801	157,796	-	-	(4,005)
Other	17,388	-	-	-	(17,388)
Interest on long-term debt	664,068	-	-	-	(664,068)
Depreciation, unallocated	<u>480,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(480,291)</u>
Total governmental activities	<u>\$ 5,033,585</u>	<u>\$ 287,164</u>	<u>\$ 435,758</u>	<u>\$ 4,885</u>	<u>(4,305,778)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					2,742,735
Levied for Debt Service					1,218,192
State school aid - unrestricted					345,002
Investments and other					<u>194,400</u>
Total general purpose revenues					<u>4,500,329</u>
Change in net position					194,551
Net position, beginning of year, as restated (Note B)					<u>1,608,553</u>
Net position, end of year					<u>\$ 1,803,104</u>

-5- The accompanying notes are an integral part of these financial statements.

Onekama Consolidated Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	Major Fund			Non-major Governmental Funds	Total Governmental Funds
	General Fund	2007 Debt Retirement Fund	Capital Projects Fund		
ASSETS					
Cash and equivalents	\$ 843,384	\$ 87,540	\$ 276,962	\$ 153,626	\$ 1,361,512
Due from other governments	133,434	-	-	1,400	134,834
Accounts receivables	-	-	-	2,213	2,213
Due from other funds	<u>2,190</u>	<u>-</u>	<u>-</u>	<u>1,520</u>	<u>3,710</u>
Total assets	<u>\$ 979,008</u>	<u>\$ 87,540</u>	<u>\$ 276,962</u>	<u>\$ 158,759</u>	<u>\$ 1,502,269</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 69,553	\$ -	\$ -	\$ 834	\$ 70,387
Salaries payable and related liabilities	225,555	-	-	1,737	227,292
Due to other funds	1,520	-	-	2,190	3,710
Unearned revenue	<u>19,618</u>	<u>-</u>	<u>-</u>	<u>5,372</u>	<u>24,990</u>
Total liabilities	<u>316,246</u>	<u>-</u>	<u>-</u>	<u>10,133</u>	<u>326,379</u>
FUND BALANCES					
Restricted					
Debt Service	-	87,540	-	103,248	190,788
Capital Projects	-	-	-	2	2
Food Service	-	-	-	31,310	31,310
Committed					
Subsequent year expenditures	162,944	-	-	-	162,944
Leaps and Bounds	-	-	-	14,066	14,066
Assigned					
Building improvements	-	-	276,962	-	276,962
Compensated absences	98,250	-	-	-	98,250
Unassigned	<u>401,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,568</u>
Total fund balances	<u>662,762</u>	<u>87,540</u>	<u>276,962</u>	<u>148,626</u>	1,175,890
Total liabilities and fund balances	<u>\$ 979,008</u>	<u>\$ 87,540</u>	<u>\$ 276,962</u>	<u>\$ 158,759</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 \$19,599,015 and the accumulated depreciation is \$3,389,397.

16,209,618

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	\$ 15,255,000	
Notes payable	33,129	
Unamortized bond premium	88,909	
Accrued interest on bonds	107,116	
Accumulated leave liability	<u>98,250</u>	<u>(15,582,404)</u>

Total net position - governmental activities

\$ 1,803,104

Onekama Consolidated Schools

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

Year Ended June 30, 2013

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	2007 Debt Retirement Fund	Capital Projects Fund		
Revenues					
Property taxes	\$2,741,844	\$ 564,480	\$ -	\$ 653,900	\$ 3,960,224
Interest	1,037	416	384	574	2,411
State revenues	525,798	-	-	7,882	533,680
Federal revenues	127,829	-	-	108,576	236,405
Other	125,111	-	134,498	235,807	495,416
Total revenues	3,521,619	564,896	134,882	1,006,739	5,228,136
Expenditures					
Instruction	2,134,395	-	-	-	2,134,395
Supporting Services	1,424,412	-	-	-	1,424,412
Community Services	5,027	-	-	-	5,027
Food Service	-	-	-	190,686	190,686
Leaps and Bounds	-	-	-	161,801	161,801
Other	2,500	-	14,658	-	17,158
Debt Service					
Principal	14,296	135,000	-	405,000	554,296
Interest	6,686	410,824	-	249,834	667,344
Other	-	35	-	1,312	1,347
Capital outlay	5,200	-	9,993	-	15,193
Total expenditures	3,592,516	545,859	24,651	1,008,633	5,171,659
REVENUES OVER (UNDER) EXPENDITURES	(70,897)	19,037	110,231	(1,894)	56,477
Other financing sources (uses)					
Interfund transfers in	-	-	-	1,520	1,520
Interfund transfers out	(1,520)	-	-	-	(1,520)
Total other financing sources (uses)	(1,520)	-	-	1,520	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(72,417)	19,037	110,231	(374)	56,477
Fund balances, beginning of year	735,179	68,503	166,731	149,000	1,119,413
Fund balances, end of year	<u>\$ 662,762</u>	<u>\$ 87,540</u>	<u>\$ 276,962</u>	<u>\$ 148,626</u>	<u>\$ 1,175,890</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, 2013

Total net change in fund balances - governmental funds \$ 56,477

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	\$ 15,193	
Depreciation expense	<u>(480,291)</u>	(465,098)

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 \$4,959. Early retirement incentives paid were more than amounts earned by \$49,442.

44,483

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.

550,671

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.

3,276

Changes in net position of governmental activities

\$ 194,551

Onekama Consolidated Schools

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

Agency Funds

ASSETS	
Cash and cash equivalents	<u>\$ 95,468</u>
LIABILITIES	
Due to student groups	<u>\$ 95,468</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, 2013, the School District employed 19 professional staff and 30 non-professional staff, and had 392 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, 2013.

Financial Reporting Entity

Onekama Consolidated Schools' Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, 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

Non-major 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 2007-2008 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

For the year ended June 30, 2013, the School District implemented the provisions of Governmental Accounting Standards Board Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*.

As a consequence of the early adoption of GASB 65, net position was restated as follows as of June 30, 2012:

	<u>Governmental Activities</u>
Net assets, <i>as originally presented</i>	\$ 1,798,223
Expensing of bond issuance cost	<u>(189,670)</u>
Net position, <i>as restated</i>	<u><u>\$ 1,608,553</u></u>

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, 2013, the School District was in compliance with the Act.

NOTE D - CASH AND EQUIVALENTS

At June 30, 2013, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Bank deposits	\$ 784,428
Investments	<u>672,552</u>
	<u><u>\$ 1,456,980</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2013, \$549,478 of the School District's bank balance of \$799,478 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, 2013 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>\$ 672,552</u>	<u>\$ 672,552</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 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 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 \$150.95 million and \$6 per \$1,000 of equalized commercial personal property value of \$2.08 million was levied for general operating purposes. For Debt Service, \$4.36 per \$1,000 of total equalized property value of \$272.6 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 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, 2013 are as follows:

Due from the State of Michigan	
State aid	\$ 117,009
Due from Federal grants	15,612
Due from other sources	<u>2,213</u>
	<u>\$ 134,834</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Buildings and improvements	\$ 18,054,960	\$ 9,993	\$ -	\$ 18,064,953
Buses and vehicles	430,095	-	(47,035)	383,060
Furniture and equipment	<u>743,836</u>	<u>5,200</u>	<u>-</u>	<u>749,036</u>
Total depreciable assets	19,228,891	15,193	(47,035)	19,197,049
Less accumulated depreciation	(2,956,141)	(480,291)	47,035	(3,389,397)
Land	<u>401,966</u>	<u>-</u>	<u>-</u>	<u>401,966</u>
Total capital assets, net	<u>\$ 16,674,716</u>	<u>\$ (465,098)</u>	<u>\$ -</u>	<u>\$ 16,209,618</u>

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

Unallocated	<u>\$ 480,291</u>
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NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2013 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	\$ 15,795,000	\$ -	\$ (540,000)	\$ 15,255,000	\$ 560,000
Notes payable	43,800	-	(10,671)	33,129	10,855
Unamortized bond premium	93,651	-	(4,742)	88,909	4,742
Early retirement liability	49,442	-	(49,442)	-	-
Accumulated leave liability	<u>93,291</u>	<u>4,959</u>	<u>-</u>	<u>98,250</u>	<u>-</u>
Long-term debt	<u>\$ 16,075,184</u>	<u>\$ 4,959</u>	<u>\$ (604,855)</u>	<u>\$ 15,475,288</u>	<u>\$ 575,597</u>

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

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2013, 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%.	\$ 1,885,000
\$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.	9,365,000
\$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>4,005,000</u>
Total general obligation bonds	15,255,000
Note payable for a bus with a cost of \$74,015; due in annual installments of \$11,425 through August 2015; interest rate of 1.72%; due semi-annually.	33,129
Unamortized bond premium	88,909
Accumulated leave liability	<u>98,250</u>
Total long-term debt	<u><u>\$15,475,288</u></u>

Total annual requirements to amortize general obligation bonds and note payable outstanding as of June 30, 2013 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 570,855	\$ 641,891
2015	591,042	621,354
2016	611,232	599,173
2017	625,000	576,380
2018	650,000	562,546
2019-2023	3,700,000	2,280,468
2024-2028	4,455,000	1,450,574
2029-2033	<u>4,085,000</u>	<u>444,630</u>
	<u><u>\$15,288,129</u></u>	<u><u>\$ 7,177,016</u></u>

Interest expense for the year ended June 30, 2013 was \$664,068, and interest paid was \$667,344.

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 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 Onkama Consolidated Schools. At June 30, 2013, 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.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General	\$ 2,190	\$ 1,520
Other Governmental Funds		
Food Service	1,520	-
Leaps and Bounds	-	851
Capital Projects	<u>-</u>	<u>1,339</u>
	<u>\$ 3,710</u>	<u>\$ 3,710</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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>\$ 1,520</u>	General Fund	<u>\$ 1,520</u>

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, PO Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Defined Benefit Plan

Plan members who participate in MIP are required to contribute 3.0% to 7.0% of their annual covered salary; plan members who participate in the Basic Plan contribute 3%; and the School District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rates were 24.46% and 23.23%, dependent upon entrance date, for the period July 1, 2012 to September 30, 2012. From October 1, 2012 through January 31, 2013, the rates were 27.37% and 26.14%, dependent upon entrance date. Beginning February 1, 2013, the rates ranged between 20.96% and 24.32% based on individual retirement elections made by each employee. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2013, 2012 and 2011 were \$437,210, \$400,949 and \$358,675, respectively, which is equal to the required contribution for each year.

NOTES TO FINANCIAL STATEMENTS - Continued

Defined Contribution Plan

Plan members who participate in the plan may contribute up to the maximum amounts permitted by the Internal Revenue Service to their 457 account. Onekama Consolidated Schools is required to contribute 4% to a tax deferred 401(k) account. The School District's contribution to the defined contribution plan was \$1,975 for the year ended 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 coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

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 had a contract through August 21, 2011. A new contract is in the process of being negotiated.

REQUIRED SUPPLEMENTARY INFORMATION

Onekama Consolidated Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		Original to	Final Budget
				Final Budget	To Actual
Revenues					
Local and intermediate sources	\$ 2,791,619	\$ 2,815,730	\$ 2,831,972	\$ 24,111	\$ 16,242
State revenues	589,946	491,836	525,798	(98,110)	33,962
Federal revenues	133,367	139,064	127,829	5,697	(11,235)
Other	<u>23,000</u>	<u>36,019</u>	<u>36,020</u>	<u>13,019</u>	<u>1</u>
Total revenues	<u>3,537,932</u>	<u>3,482,649</u>	<u>3,521,619</u>	<u>(55,283)</u>	<u>38,970</u>
Expenditures					
Instruction					
Basic programs	1,763,562	1,796,173	1,734,060	(32,611)	62,113
Added needs	<u>456,500</u>	<u>411,037</u>	<u>400,335</u>	<u>45,463</u>	<u>10,702</u>
Total instruction	<u>2,220,062</u>	<u>2,207,210</u>	<u>2,134,395</u>	<u>12,852</u>	<u>72,815</u>
Support services					
Pupil support	71,765	49,783	49,518	21,982	265
Instruction staff support	15,666	15,224	10,375	442	4,849
General administration	202,363	222,624	219,406	(20,261)	3,218
School administration	181,646	185,694	180,154	(4,048)	5,540
Business services	121,075	123,610	122,830	(2,535)	780
Operations and maintenance	499,958	477,363	451,991	22,595	25,372
Transportation	160,342	171,959	162,069	(11,617)	9,890
Other central support	<u>296,183</u>	<u>243,404</u>	<u>233,269</u>	<u>52,779</u>	<u>10,135</u>
Total support services	<u>1,548,998</u>	<u>1,489,661</u>	<u>1,429,612</u>	<u>59,337</u>	<u>60,049</u>
Community services	<u>6,000</u>	<u>6,000</u>	<u>5,027</u>	<u>-</u>	<u>973</u>
Total expenditures	<u>3,775,060</u>	<u>3,702,871</u>	<u>3,569,034</u>	<u>72,189</u>	<u>133,837</u>
REVENUES OVER (UNDER) EXPENDITURES	(237,128)	(220,222)	(47,415)	16,906	172,807
Other financing uses					
Other financing uses	<u>(27,300)</u>	<u>(25,000)</u>	<u>(25,002)</u>	<u>2,300</u>	<u>(2)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(264,428)	(245,222)	(72,417)	19,206	172,805
Fund balance, beginning of year	<u>611,476</u>	<u>735,179</u>	<u>735,179</u>	<u>123,703</u>	<u>-</u>
Fund balance, end of year	<u>\$ 347,048</u>	<u>\$ 489,957</u>	<u>\$ 662,762</u>	<u>\$ 142,909</u>	<u>\$ 172,805</u>

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

Onekama Consolidated Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2013

	<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>
ASSETS						
Cash and cash equivalents	\$ 31,980	\$ 17,057	\$ 64,788	\$ 38,460	\$ 1,341	\$ 153,626
Due from other governments	1,400	-	-	-	-	1,400
Accounts receivables	-	2,213	-	-	-	2,213
Due from other funds	<u>1,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,520</u>
Total assets	<u><u>\$ 34,900</u></u>	<u><u>\$ 19,270</u></u>	<u><u>\$ 64,788</u></u>	<u><u>\$ 38,460</u></u>	<u><u>\$ 1,341</u></u>	<u><u>\$ 158,759</u></u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ 834	\$ -	\$ -	\$ -	\$ 834
Salaries payable and related liabilities	499	1,238	-	-	-	1,737
Unearned revenue	3,091	2,281	-	-	-	5,372
Due to other funds	<u>-</u>	<u>851</u>	<u>-</u>	<u>-</u>	<u>1,339</u>	<u>2,190</u>
Total liabilities	<u>3,590</u>	<u>5,204</u>	<u>-</u>	<u>-</u>	<u>1,339</u>	<u>10,133</u>
FUND BALANCES						
Restricted - Debt Service	-	-	64,788	38,460	-	103,248
Restricted - Capital Projects	-	-	-	-	2	2
Restricted - Food Service	31,310	-	-	-	-	31,310
Committed - school-based activities	<u>-</u>	<u>14,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,066</u>
Total fund balances	<u>31,310</u>	<u>14,066</u>	<u>64,788</u>	<u>38,460</u>	<u>2</u>	<u>148,626</u>
Total liabilities and fund balances	<u><u>\$ 34,900</u></u>	<u><u>\$ 19,270</u></u>	<u><u>\$ 64,788</u></u>	<u><u>\$ 38,460</u></u>	<u><u>\$ 1,341</u></u>	<u><u>\$ 158,759</u></u>

Onekama Consolidated Schools

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

Year Ended June 30, 2013

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>		<u>Capital Projects Funds</u>	<u>Total Non-Major Governmental</u>
	<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	\$ -	\$ -	\$ 416,374	\$ 237,526	\$ -	\$ 653,900
Interest	13	2	444	113	2	574
State revenues	7,882	-	-	-	-	7,882
Federal revenues	104,200	4,376	-	-	-	108,576
Other	<u>73,194</u>	<u>162,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235,807</u>
Total revenues	<u>185,289</u>	<u>166,991</u>	<u>416,818</u>	<u>237,639</u>	<u>2</u>	<u>1,006,739</u>
Expenditures						
Food Service	190,686	-	-	-	-	190,686
Leaps and Bounds	-	161,801	-	-	-	161,801
Debt Service						
Principal	-	-	330,000	75,000	-	405,000
Interest	-	-	83,399	166,435	-	249,834
Other	<u>-</u>	<u>-</u>	<u>148</u>	<u>1,164</u>	<u>-</u>	<u>1,312</u>
Total expenditures	<u>190,686</u>	<u>161,801</u>	<u>413,547</u>	<u>242,599</u>	<u>-</u>	<u>1,008,633</u>
REVENUES OVER (UNDER) EXPENDITURES	(5,397)	5,190	3,271	(4,960)	2	(1,894)
Other financing sources						
Interfund transfers in	<u>1,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,520</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(3,877)	5,190	3,271	(4,960)	2	(374)
Fund balances, beginning of year	<u>35,187</u>	<u>8,876</u>	<u>61,517</u>	<u>43,420</u>	<u>-</u>	<u>149,000</u>
Fund balances, end of year	<u>\$ 31,310</u>	<u>\$ 14,066</u>	<u>\$ 64,788</u>	<u>\$ 38,460</u>	<u>\$ 2</u>	<u>\$ 148,626</u>



Business and Financial Advisors
Our clients' success – our business

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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, 2013, 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 8, 2013.

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 8, 2012