

**Onekama Consolidated Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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# 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, 2017. It is to be read in conjunction with the School District’s financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

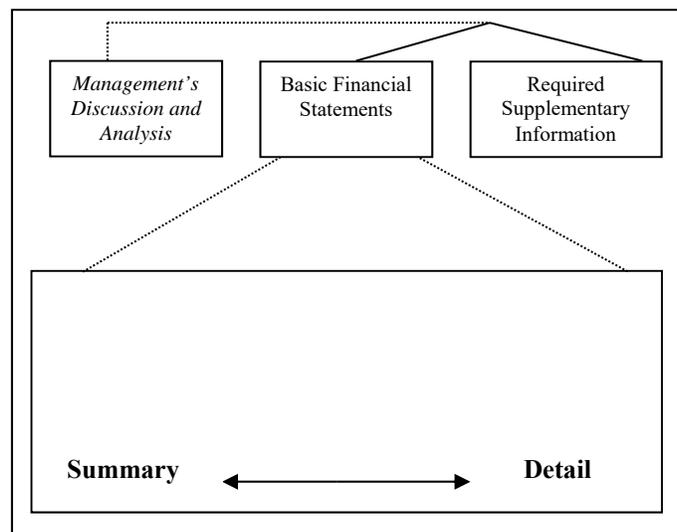
- The School District’s financial status decreased during the year due to an increase in expenditures, specifically bus maintenance and building repairs and maintenance.
- The State of Michigan foundation grant increased by \$86 from \$8,111 to \$8,197.

## 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:

- 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.

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



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.

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

Figure A-2 summarized the major features of the 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**

	2016	2017
Current and other assets	\$ 1,171,099	\$ 2,723,538
Capital assets	15,116,101	14,596,659
Total assets	16,287,200	17,320,197
Deferred outflows of resources	518,596	1,021,727
Total assets and deferred outflows of resources	\$ 16,805,796	\$ 18,341,924
Long-term debt outstanding	\$ 13,277,922	\$ 14,741,319
Other liabilities	1,151,413	1,250,392
Net pension obligation	5,187,954	5,341,350
Total liabilities	19,617,289	21,333,061
Deferred inflows of resources	17,184	26,664
Net position		
Invested in property and equipment, net of related debt	1,265,441	853,147
Restricted for		
Food Service	33,912	41,285
Debt Service	34,914	-
Unrestricted/(deficit)	(4,162,944)	(3,912,233)
Total net position	(2,828,677)	(3,017,801)
Total liabilities, deferred inflows of resources and net position	\$ 16,805,796	\$ 18,341,924

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

**Table A-4**

Revenues	2016	2017
Property Taxes, levied for general purposes	\$ 2,791,502	\$ 2,868,188
Property Taxes, levied for debt services	1,154,232	1,177,622
State aid not restricted to specific purposes	770,207	844,038
Interest and other	132,861	214,765
Charges for services	320,142	323,662
Operating grants/contributions	561,828	435,883
Total revenues	5,730,772	5,864,158
Expenses		
Instruction	2,437,129	2,540,808
Support services	1,721,120	1,808,989
Community services	5,626	8,456
Food services	228,942	220,248
Leaps and bounds	182,210	201,247
Other	8,925	252,413
Interest on long-term debt	601,283	501,679
Depreciation-unallocated	538,014	519,442
Total expenses	5,723,249	6,053,282
Change in net position	7,523	(189,124)
Net position - Beginning of year	(2,836,200)	(2,828,677)
Net position - End of year	\$ (2,828,677)	\$ (3,017,801)

## **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, 2017, the School District recorded \$5,341,350 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 \$2,395,042; an increase of \$1,545,835 over last year's ending fund balances of \$849,207.

## 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 \$136,612, the actual results for the year show a decrease of \$59,536 due to final adjustments to personnel and conservative budgeting of expense line items.
- Actual revenues were \$4,222,151 or \$24,354 more than expected, due primarily to final grant allocations.
- Actual expenditures were \$4,234,463 or \$79,256 below budget, due primarily to conservative budgeting of supplies and utilities.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Depreciable assets for the 2016-2017 school year totaled \$19,591,275. A summary of capital assets follows:

**Table A-5**  
**OCS's Capital Assets**

	<u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>2017</u>
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Capital assets being depreciated:				
Building and building improvements	18,064,953	-	-	18,064,953
Buses and other vehicles	537,666	-	(50,152)	487,514
Furniture and equipment	1,038,808	-	-	1,038,808
Gross capital assets	19,641,427	-	(50,152)	19,591,275
Less accumulated depreciation:	(4,927,292)	(519,442)	50,152	(5,396,582)
Net governmental capital assets	<u>\$ 15,116,101</u>	<u>\$ (519,442)</u>	<u>\$ -</u>	<u>\$ 14,596,659</u>

## Long-term Debt

At year-end the District had \$14,125,000 in general obligation bonds and \$173,935 in capital lease and note payable obligations.

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

	<u>2016</u>	Net Additions/ (Payments)	<u>2017</u>
General obligation debts (financed with property taxes)	\$13,515,000	\$610,000	\$14,125,000
Note Payable/Capital lease	260,976	(87,041)	\$173,935
Unamortized bond premium	74,684	1,045,141	1,119,825
Early retirement liability	41,984	(11,842)	30,142
Accumulated sick & vacation	<u>113,904</u>	<u>7,768</u>	<u>121,672</u>
Total	<u>\$14,006,548</u>	<u>\$1,564,026</u>	<u>\$15,570,574</u>

Additional information on the District's long-term debt can be found in Note F on page 18 of this report.

## 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 2017-2018 foundation allowance will increase by a range from \$60 - \$120. 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, 2018.

## 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  
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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, 2017, 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, 2017, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *vii*, budgetary comparison information on page 31 and pension schedules on page 32, 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 3, 2017, 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 3, 2017

# Onekama Consolidated Schools

## STATEMENT OF NET POSITION

June 30, 2017

Governmental  
Activities

### ASSETS AND DEFERRED OUTFLOW OF RESOURCES

#### ASSETS

##### Current assets

Cash and equivalents	\$ 2,440,776
Other receivables	11,619
Due from other governments	253,113
Prepaid expenses	<u>18,030</u>

Total current assets 2,723,538

##### Non-current assets

Capital assets, net of accumulated depreciation 14,596,659

Total assets 17,320,197

#### DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding 463,244

Deferred outflows of resources for pension obligation 558,483

Total deferred outflows of resources 1,021,727

Total assets and deferred outflows of resources \$ 18,341,924

### LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

#### LIABILITIES

##### Current liabilities

Accounts payable	\$ 10,987
Salaries payable and related liabilities	299,065
Accrued interest	92,641
Unearned revenue	18,444
Current portion of long-term liabilities	<u>829,255</u>

Total current liabilities 1,250,392

Non-current portion of long-term liabilities 14,741,319

Net pension obligation 5,341,350

Total liabilities 21,333,061

DEFERRED INFLOWS OF RESOURCES - pension obligations 26,664

#### NET POSITION

Invested in capital assets, net of related debt 853,147

##### Restricted for

Food Service 41,285

Unrestricted (deficit) (3,912,233)

Total net position (3,017,801)

Total liabilities, deferred inflows of resources and net position \$ 18,341,924

# Onekama Consolidated Schools

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Program	Expenses	Program Revenues		Net (Expense)/ Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 2,540,808	\$ -	\$ 208,469	\$ (2,332,339)
Supporting Services	1,808,989	72,452	71,598	(1,664,939)
Community Services	8,456	-	-	(8,456)
Food Service	220,248	71,081	150,969	1,802
Leaps and Bounds	201,247	180,129	4,847	(16,271)
Other	252,413	-	-	(252,413)
Interest on long-term debt	501,679	-	-	(501,679)
Depreciation, unallocated	519,442	-	-	(519,442)
	<u>\$ 6,053,282</u>	<u>\$ 323,662</u>	<u>\$ 435,883</u>	<u>(5,293,737)</u>
General purpose revenues				
Property taxes				
Levied for general purposes				2,868,188
Levied for Debt Service				1,177,622
State school aid - unrestricted				844,038
Investments and other				214,765
				<u>5,104,613</u>
				(189,124)
Change in net position				(189,124)
Net position, beginning of year				(2,828,677)
Net position, end of year				\$ (3,017,801)

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

# Onekama Consolidated Schools

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	Major Fund		Non-major Governmental Funds	Total Governmental Funds
	General Fund	2017 Capital Projects Fund		
<b>ASSETS</b>				
Cash and equivalents	\$ 485,636	\$ 1,677,549	\$ 277,591	\$ 2,440,776
Due from other governments	245,755	-	7,358	253,113
Accounts receivables	-	-	11,619	11,619
Due from other funds	8,214	-	16,563	24,777
Prepaid expenditures	16,829	-	1,201	18,030
Total assets	\$ 756,434	\$ 1,677,549	\$ 314,332	\$ 2,748,315
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 8,043	\$ 1,512	\$ 1,432	\$ 10,987
Salaries payable and related liabilities	294,983	-	4,082	299,065
Due to other funds	16,049	789	7,939	24,777
Unearned revenue	14,309	-	4,135	18,444
Total liabilities	333,384	2,301	17,588	353,273
<b>FUND BALANCES</b>				
Nonspendable - prepaids	16,829	-	1,201	18,030
Restricted				
Debt Service	-	-	87,901	87,901
Capital Projects	-	1,675,248	-	1,675,248
Food Service	-	-	40,084	40,084
Committed				
Subsequent year expenditures	72,558	-	-	72,558
Leaps and Bounds	-	-	29,518	29,518
Assigned				
Building improvements	-	-	138,040	138,040
Compensated absences	121,672	-	-	121,672
Early retirement incentives	30,142	-	-	30,142
Unassigned	181,849	-	-	181,849
Total fund balances	423,050	1,675,248	296,744	2,395,042
Total liabilities and fund balances	\$ 756,434	\$ 1,677,549	\$ 314,332	

### 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 \$19,993,241 and the accumulated depreciation is \$5,396,582. 14,596,659

Deferred outflows of resources is not a financial resource and, therefore, is not reported as an asset in governmental funds. 558,483

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	14,125,000	
Notes payable	117,944	
Capital lease	55,991	
Unamortized bond premium	1,119,825	
Unamortized loss on bond refunding	(463,244)	
Accrued interest on bonds	92,641	
Early retirement incentive payable	30,142	
Accumulated leave liability	121,672	
Net pension obligation	5,341,350	(20,541,321)

Deferred inflows of resources is not a financial resource and, therefore, is not reported as a liability in governmental funds. (26,664)

Total net position - governmental activities \$ (3,017,801)

## Onekama Consolidated Schools

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

Year Ended June 30, 2017

	Major Funds		Non-major Governmental Funds	Total Governmental Funds
	General Fund	2017 Capital Projects Fund		
<b>Revenues</b>				
Property taxes	\$ 2,868,188	\$ -	\$ 1,177,622	\$ 4,045,810
Interest	4,898	334	3,128	8,360
State revenues	961,690	-	9,464	971,154
Federal revenues	149,704	-	146,352	296,056
Other	237,671	-	305,107	542,778
Total revenues	4,222,151	334	1,641,673	5,864,158
<b>Expenditures</b>				
Instruction	2,456,910	-	-	2,456,910
Supporting Services	1,769,097	-	-	1,769,097
Community Services	8,456	-	-	8,456
Food Service	-	-	220,248	220,248
Leaps and Bounds	-	-	201,247	201,247
Other	2,500	-	-	2,500
Debt Service				
Principal	91,917	-	625,000	716,917
Interest	11,237	-	512,572	523,809
Other	-	-	2,450	2,450
Capital outlay	-	-	4,875	4,875
Total expenditures	4,340,117	-	1,566,392	5,906,509
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(117,966)	334	75,281	(42,351)
<b>Other financing sources (uses)</b>				
Interfund transfers in	60,000	-	1,570	61,570
Interfund transfers out	(1,570)	-	(60,000)	(61,570)
Proceeds from bond issuance	-	1,550,000	-	1,550,000
Proceeds from refunding bonds	-	-	12,235,000	12,235,000
Proceeds from bond premiums	-	162,348	984,988	1,147,336
Bond issuance costs	-	(37,434)	(207,154)	(244,588)
Payments to refunded bond escrow agent	-	-	(13,099,562)	(13,099,562)
Total other financing sources	58,430	1,674,914	(145,158)	1,588,186
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(59,536)	1,675,248	(69,877)	1,545,835
Fund balances, beginning of year	482,586	-	366,621	849,207
Fund balances, end of year	\$ 423,050	\$ 1,675,248	\$ 296,744	\$ 2,395,042

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, 2017

<b>Total net change in fund balances - governmental funds</b>	<b>\$</b>	<b>1,545,835</b>
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
	Capital outlays \$	-
	Depreciation expense	<u>(519,442)</u> (519,442)
Change in deferred outflows of resources for pension obligation.		39,887
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, accumulated leave earned was greater than the amounts used by \$7,768. Early retirement incentives payments were \$11,842.		4,074
Repayment of bond principal and capitalized leases are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position and do not affect the statement of activities.		712,041
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from:		
Bonds issued of \$13,785,000, including bond premiums of \$1,147,336.		(14,932,336)
Payments to escrow agent for in-substance defeasance.		13,099,562
Net amortization of deferred loss on refunding and bond discount and premium.		15,877
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.		8,254
Increase in net pension liability.		(153,396)
Change in deferred inflows of resources for pension obligation.		<u>(9,480)</u>
<b>Changes in net position of governmental activities</b>	<b>\$</b>	<b><u>(189,124)</u></b>

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

# Onekama Consolidated Schools

## STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 118,504</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 118,504</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, 2017, the School District employed 26 professional staff and 25 non-professional staff, and had 431 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, 2017.

#### *Financial Reporting Entity*

Onekama Consolidated Schools is a special purpose government and considered to be a primary government because it has a 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. 61, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Financial Statements*

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

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

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

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

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

#### *Activities in Major Funds*

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

The 2017 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

NOTES TO FINANCIAL STATEMENTS - Continued

*Activities in Non-major Funds*

*Governmental Funds*

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

The 2004, 2007 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.

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

*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.

## NOTES TO FINANCIAL STATEMENTS - Continued

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) or inflows of resources (revenue) until then. The School District's items that qualify for reporting in this category are the items related to the loss on bond refunding and pension obligation. See Note I 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.

NOTES TO FINANCIAL STATEMENTS - Continued

***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 ("MPERS") and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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 - 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, 2017, the School District was not in compliance with that provision as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Business services	\$ 140,647	\$ 141,783	\$ 1,136
Other central support	261,258	267,998	6,740

**NOTE C - CASH AND EQUIVALENTS**

At June 30, 2017, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Bank deposits	\$ 522,766
Investments	<u>2,036,514</u>
	<u><u>\$ 2,559,280</u></u>

***Bank Deposits***

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

***Custodial Credit Risk - Deposits***

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2017, \$40,055 of the School District's and Agency bank balance of \$534,537 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, 2017 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>\$ 2,036,514</u>	<u>\$ 2,036,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### *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 funds, or similar investment pools and limiting the average maturity. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

### *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 D - 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 to 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 \$158.57 million and \$6 per \$1,000 of equalized commercial personal property value of \$1.84 million was levied for general operating purposes. For Debt Service, \$4.08 per \$1,000 of total equalized property value of \$288.42 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Amounts due from other governments at June 30, 2017 are as follows:

Due from the State of Michigan - State aid	\$ 189,661
Due from Federal grants	30,150
Due from other sources	<u>33,302</u>
	<u>\$ 253,113</u>

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Buildings and improvements	\$ 18,064,953	\$ -	\$ -	\$ 18,064,953
Buses and vehicles	537,666	-	(50,152)	487,514
Furniture and equipment	<u>1,038,808</u>	<u>-</u>	<u>-</u>	<u>1,038,808</u>
Total depreciable assets	19,641,427	-	(50,152)	19,591,275
Less accumulated depreciation	(4,927,292)	(519,442)	50,152	(5,396,582)
Land	<u>401,966</u>	<u>-</u>	<u>-</u>	<u>401,966</u>
Total capital assets, net	<u>\$ 15,116,101</u>	<u>\$ (519,442)</u>	<u>\$ -</u>	<u>\$ 14,596,659</u>

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

Unallocated	<u>\$ 519,442</u>
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**NOTE F - LONG-TERM LIABILITIES**

Changes in long-term liabilities during the year ended June 30, 2017 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Defeased/ Refunded/ Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 13,515,000	\$ 13,785,000	\$(13,175,000)	\$ 14,125,000	\$ 650,000
Notes payable	150,198	-	(32,254)	117,944	32,896
Capital lease	110,778	-	(54,787)	55,991	55,991
Unamortized bond premium	74,684	1,147,336	(102,195)	1,119,825	78,526
Early retirement liability	41,984	-	(11,842)	30,142	11,842
Accumulated leave liability	<u>113,904</u>	<u>7,768</u>	<u>-</u>	<u>121,672</u>	<u>-</u>
Long-term liabilities	<u>\$ 14,006,548</u>	<u>\$ 14,940,104</u>	<u>\$(13,376,078)</u>	<u>\$ 15,570,574</u>	<u>\$ 829,255</u>

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

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2017, the School District's long-term liabilities consisted of the following:

\$4,860,000 2017 School Building and Site and Refunding general obligation bonds for the advance refunding of the School District's 2008 bond issue and \$1,550,000 in new debt; due in annual installments of \$50,000 to \$445,000 through May 2033; interest rate of 4.00%; due semi-annually.	\$ 4,860,000
\$8,925,000 2016 Refunding general obligation bonds for the advance refunding of the School District's 2004 and 2007 bond issues; due in annual installments of \$260,000 to \$775,000 through May 2032; interest rate of 4.00%; due semi-annually.	8,925,000
\$9,840,000 2007 School Building and Site general obligation bonds; refunded by the 2016 Refunding bond with a single \$235,000 installment remaining, due May 2018; interest rate of 5.00% on remaining payment.	235,000
\$4,260,000 2008 School Building and Site general obligation bonds; refunded by the 2017 School Building and Site and Refunding bond with a single \$105,000 installment remaining, due May 2018; interest rate of 3.50% on remaining payment.	<u>105,000</u>
Total general obligation bonds	14,125,000
Note payable for a bus with a cost of \$83,083; due in annual installments of \$17,622 through August 2020; interest rate of 1.99%; due annually. Secured by the purchased bus.	67,115
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.	50,829
Capital lease for computers with a cost of \$221,608; due in annual installments of \$57,220 through August 2017; including interest at a rate of 2.19%. Secured by the computers leased.	<u>55,991</u>
Total general obligation bonds, notes payable and capital leases	14,298,935
Unamortized bond premium	1,119,825
Early retirement liability	30,142
Accumulated leave liability	<u>121,672</u>
Total long-term liabilities	<u><u>\$15,570,574</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize general obligation bonds, notes payable and capital leases payable as of June 30, 2017 are as follows:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>
2018	\$ 738,887	\$ 539,187
2019	718,551	540,692
2020	774,219	512,625
2021	802,278	482,344
2022	820,000	450,944
2023-2027	4,640,000	1,732,000
2028-2032	5,620,000	728,800
2033-2037	<u>185,000</u>	<u>7,400</u>
	<u>\$14,298,935</u>	<u>\$ 4,993,992</u>

Interest expense for the year ended June 30, 2017 was \$501,679, and interest paid was \$523,809.

***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, 2017, the amount due to teachers in the program was \$30,142.

***Defeasance of Debt***

On June 5, 2017, the School District issued \$3,310,000 million in school building and site general obligation bonds with an interest rate of 4% to advance refund \$3,735,000 million of outstanding 2008 General Obligation Bonds with average remaining interest rates ranging from 3.5% to 4.5%.

The net proceeds of \$3,690,432 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2008 school building and site general obligation bonds. The outstanding principal of the defeased bonds, which have been removed from the School District's books, is \$3,530,000 million at June 30, 2017.

The bond refunding decreases the School District's total debt service payments by \$359,920 over the next fourteen years and yielded an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$279,650.

NOTES TO FINANCIAL STATEMENTS - Continued

On December 6, 2016, the School District issued \$8,925,000 million in general obligation bonds with an interest rate of 4% to advance refund \$925,000 of outstanding 2004 refunding bonds with average remaining interest rates ranging from 3.9% to 4.1% and \$8,855,000 million of outstanding 2007 school building and site bonds with average remaining interest rates ranging from 4.0% to 4.8% .

The net proceeds of \$9,529,556 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2005 General Obligation Bonds. The outstanding principal of the defeased bonds, which have been removed from the School District's books, is \$9,020,000 million at June 30, 2017.

The bond refunding decreases the School District's total debt service payments by \$389,428 over the next fifteen years and yielded an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$288,953.

***Deferred Loss on Refunding***

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization</u>	<u>Ending Balance</u>
2017 School Building and Site Refunding bonds	\$ -	\$ 78,792	\$ (443)	\$ 78,349
2016 Refunding bonds	<u>-</u>	<u>401,125</u>	<u>(16,230)</u>	<u>384,895</u>
Total deferred outflows	<u>\$ -</u>	<u>\$ 479,917</u>	<u>\$ (16,673)</u>	<u>\$ 463,244</u>

**NOTE G - 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, 2017, there were no significant unbilled claims.

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

*Due To and Due From Other Funds*

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>Due From</u>	<u>Due To</u>
Major Governmental Funds		
General	\$ 8,214	\$ 16,049
2017 Capital Projects	-	789
Other Governmental Funds		
Food Service	514	7,425
Leaps and Bounds	<u>16,049</u>	<u>514</u>
	<u>\$ 24,777</u>	<u>\$ 24,777</u>

*Transfers*

Transfers within the reporting entity are substantially for the purposes of subsidizing operating functions and funding capital projects. 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 columns.

The following schedule reports transfers within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Major Governmental Funds		Major Governmental Funds	
General Fund	\$ 60,000	General Fund	\$ 1,570
Other Governmental Funds		Other Governmental Funds	
Food Service Fund	<u>1,570</u>	Capital Projects Fund	<u>60,000</u>
	<u>\$ 61,570</u>		<u>\$ 61,570</u>

## NOTE I - PENSION PLAN AND POST EMPLOYMENT BENEFITS

### *Plan Description*

The Michigan Public School Employees' Retirement System ("MPERS") 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. The Board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The system is administered by the Office of Retirement Services ("ORS") within the Michigan Department of Technology, Management and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

### *Benefits Provided*

Benefit provisions of the defined benefit pension plan are established by 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. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account, if applicable. A refund cancels a former member's 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.

### *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.

### *Funding Policy*

#### *Defined Contribution Plan*

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

***Contributions and Funded Status***

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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 this 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. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 will be amortized over a 20 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2016:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	18.95%
Member Investment Plan	3.0-7.0%	18.95%
Pension Plus	3.0-6.4%	17.73%
Defined Contribution	0.0%	14.56%

Required contributions to the pension plan from the School District were \$480,748 for the year ended September 30, 2016.

The School District's contributions to the MPSERS Defined Contribution Plan were \$4,023, for the year ended June 30, 2017, 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. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2017, the School District reported a liability of \$5,341,350 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2016, the School District's proportion was 0.02141%, which was an increase of 0.00017% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$526,668. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 66,567	\$ 12,659
Changes of assumptions	83,508	-
Net difference between projected and actual earnings on pension plan investments	88,773	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	66,084	14,005
School District contributions subsequent to the measurement date	<u>253,551</u>	<u>-</u>
Total	<u>\$ 558,483</u>	<u>\$ 26,664</u>

From the above table, \$253,551 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2017	\$ 59,634
2018	52,652
2019	142,412
2020	<u>23,570</u>
Total	<u>\$ 278,268</u>

*Actuarial Assumptions*

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

Additional information as of the latest actual valuation follows:

*Summary of Actuarial Assumptions*

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on pension plan investments was determined using a building-block 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short-Term Investment Pools	2.0	0.0
	100.0 %	

*\*Long-term rate of return does not include 2.1% inflation.*

***Discount Rate***

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

***Sensitivity of the School District's Proportionate Share 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% (7.0% for the Hybrid Plan), 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 or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$ 6,878,315	\$ 5,341,350	\$ 4,045,542

***Michigan Public School Employees' Retirement System ("MPERS") Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR"). The 2016 MPERS CAFR is available at: [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

***Payables to the Michigan Public School Employees' Retirement System ("MPERS")***

The School District reported \$68,005 and \$94 payable to the plan at June 30, 2017 for legally required defined benefit and defined contribution plan contributions, respectively.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***School Improvement Commitment***

As of June 30, 2017, the School District has committed to a total project cost of approximately \$1,700,000. Of this amount, the School District issued bonds in the amount of \$1,550,000, plus an underwriter's discount of \$7,750. The remaining balance of \$142,250 will be received in the form of amortized bond premium and interest income. As of June 30, 2017, \$37,434 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$1,675,000. The 2017 School Improvement Fund balance was \$1,675,000 at June 30, 2017. The expected completion date is December 2018.

***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 31, 2017. A new contract is currently being negotiated.

**REQUIRED SUPPLEMENTARY INFORMATION**

# Onekama Consolidated Schools

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to</u>	<u>Final Budget</u>
				<u>Final Budget</u>	<u>To Actual</u>
<b>Revenues</b>					
Local and intermediate sources	\$ 2,878,608	\$ 3,056,375	\$ 3,065,399	\$ 177,767	\$ 9,024
State revenues	1,025,834	986,739	961,690	(39,095)	(25,049)
Federal revenues	157,196	154,683	149,704	(2,513)	(4,979)
Other	-	-	45,358	-	45,358
Total revenues	<u>4,061,638</u>	<u>4,197,797</u>	<u>4,222,151</u>	<u>136,159</u>	<u>24,354</u>
<b>Expenditures</b>					
<b>Instruction</b>					
Basic programs	1,882,882	1,975,419	1,950,114	(92,537)	25,305
Added needs	<u>524,643</u>	<u>522,313</u>	<u>506,796</u>	<u>2,330</u>	<u>15,517</u>
Total instruction	<u>2,407,525</u>	<u>2,497,732</u>	<u>2,456,910</u>	<u>(90,207)</u>	<u>40,822</u>
<b>Support services</b>					
Pupil support	62,154	93,313	89,591	(31,159)	3,722
Instruction staff support	27,342	29,701	20,162	(2,359)	9,539
General administration	231,236	235,285	230,841	(4,049)	4,444
School administration	227,365	231,535	224,290	(4,170)	7,245
Business services	130,483	140,647	141,783	(10,164)	(1,136)
Operations and maintenance	569,430	659,854	638,732	(90,424)	21,122
Transportation	149,035	155,894	155,700	(6,859)	194
Other central support	<u>295,912</u>	<u>261,258</u>	<u>267,998</u>	<u>34,654</u>	<u>(6,740)</u>
Total support services	<u>1,692,957</u>	<u>1,807,487</u>	<u>1,769,097</u>	<u>(114,530)</u>	<u>38,390</u>
Community services	<u>7,000</u>	<u>8,500</u>	<u>8,456</u>	<u>(1,500)</u>	<u>44</u>
Total expenditures	<u>4,107,482</u>	<u>4,313,719</u>	<u>4,234,463</u>	<u>(206,237)</u>	<u>79,256</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(45,844)</u>	<u>(115,922)</u>	<u>(12,312)</u>	<u>(70,078)</u>	<u>103,610</u>
<b>Other financing sources (uses)</b>					
Interfund transfers in	85,300	87,300	60,000	2,000	(27,300)
Interfund transfers out	(1,570)	(1,570)	(1,570)	-	-
Other financing uses	<u>(105,720)</u>	<u>(106,420)</u>	<u>(105,654)</u>	<u>(700)</u>	<u>766</u>
Total other financing sources (uses)	<u>(21,990)</u>	<u>(20,690)</u>	<u>(47,224)</u>	<u>1,300</u>	<u>(26,534)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(67,834)</u>	<u>(136,612)</u>	<u>(59,536)</u>	<u>(68,778)</u>	<u>77,076</u>
Fund balance, beginning of year	<u>458,074</u>	<u>482,586</u>	<u>482,586</u>	<u>24,512</u>	<u>-</u>
Fund balance, end of year	<u>\$ 390,240</u>	<u>\$ 345,974</u>	<u>\$ 423,050</u>	<u>\$ (44,266)</u>	<u>\$ 77,076</u>

## Onekama Consolidated Schools

### SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

#### Michigan Public School Employees Retirement Plan

	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.02140892 %	0.02124000 %	0.02099000 %
School District's proportionate share of net pension liability	\$ 5,341,350	\$ 5,187,954	\$ 4,622,464
School District's covered-employee payroll	1,812,661	1,777,656	1,793,122
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	294.67 %	291.84 %	257.79 %
Plan fiduciary net position as a percentage of total pension liability	63.27 %	63.17 %	66.20 %

### SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS

#### Michigan Public School Employees Retirement Plan

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 331,625	\$ 409,753	\$ 405,928
School District contributions made to the Plan	<u>331,625</u>	<u>409,753</u>	<u>405,928</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 1,783,113	\$ 1,834,224	\$ 1,872,695
Contributions as a percentage of covered-employee payroll	18.60 %	22.34 %	21.68 %

Change of benefit terms: There were no changes of benefit terms in 2016.

Change of assumptions: There were no changes of benefit assumptions in 2016.

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

## Onekama Consolidated Schools

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

June 30, 2017

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>			<u>Capital Projects Fund</u>	<u>Total Non-Major Governmental</u>
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2004 Debt Retirement Fund</u>	<u>2007 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>		
<b>ASSETS</b>							
Cash and cash equivalents	\$ 43,203	\$ 12,218	\$ 44,253	\$ 38,227	\$ 1,650	\$ 138,040	\$ 277,591
Due from other governments	7,358	-	-	-	-	-	7,358
Accounts receivables	-	7,848	-	-	3,771	-	11,619
Due from other funds	514	16,049	-	-	-	-	16,563
Prepaid expenditures	1,201	-	-	-	-	-	1,201
	<u>1,201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,201</u>
Total assets	<u>\$ 52,276</u>	<u>\$ 36,115</u>	<u>\$ 44,253</u>	<u>\$ 38,227</u>	<u>\$ 5,421</u>	<u>\$ 138,040</u>	<u>\$ 314,332</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ -	\$ 1,432	\$ -	\$ -	\$ -	\$ -	\$ 1,432
Salaries payable and related liabilities	623	3,459	-	-	-	-	4,082
Due to other funds	7,425	514	-	-	-	-	7,939
Unearned revenue	2,943	1,192	-	-	-	-	4,135
	<u>2,943</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,135</u>
Total liabilities	<u>10,991</u>	<u>6,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,588</u>
<b>FUND BALANCES</b>							
Nonspendable - prepaids	1,201	-	-	-	-	-	1,201
Restricted - Debt Service	-	-	44,253	38,227	5,421	-	87,901
Restricted - Food Service	40,084	-	-	-	-	-	40,084
Assigned - Building Improvements	-	-	-	-	-	138,040	138,040
Committed - Leaps and Bounds	-	29,518	-	-	-	-	29,518
	<u>-</u>	<u>29,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,518</u>
Total fund balances	<u>41,285</u>	<u>29,518</u>	<u>44,253</u>	<u>38,227</u>	<u>5,421</u>	<u>138,040</u>	<u>296,744</u>
Total liabilities and fund balances	<u>\$ 52,276</u>	<u>\$ 36,115</u>	<u>\$ 44,253</u>	<u>\$ 38,227</u>	<u>\$ 5,421</u>	<u>\$ 138,040</u>	<u>\$ 314,332</u>

## Onekama Consolidated Schools

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

Year Ended June 30, 2017

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>			<u>Capital Projects Fund</u>	<u>Total Non-Major Governmental</u>
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2004 Debt Retirement Fund</u>	<u>2007 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>		
Revenues							
Property taxes	\$ -	\$ -	\$ 468,971	\$ 454,586	\$ 254,065	\$ -	\$ 1,177,622
Interest	113	150	799	1,239	182	645	3,128
State revenues	9,464	-	-	-	-	-	9,464
Federal revenues	141,505	4,847	-	-	-	-	146,352
Other	<u>73,969</u>	<u>195,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,365</u>	<u>305,107</u>
Total revenues	<u>225,051</u>	<u>200,770</u>	<u>469,770</u>	<u>455,825</u>	<u>254,247</u>	<u>36,010</u>	<u>1,641,673</u>
Expenditures							
Food Service	220,248	-	-	-	-	-	220,248
Leaps and Bounds	-	201,247	-	-	-	-	201,247
Debt Service							
Principal	-	-	310,000	215,000	100,000	-	625,000
Interest	-	-	154,450	203,762	154,360	-	512,572
Other	-	-	450	1,000	1,000	-	2,450
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,875</u>	<u>4,875</u>
Total expenditures	<u>220,248</u>	<u>201,247</u>	<u>464,900</u>	<u>419,762</u>	<u>255,360</u>	<u>4,875</u>	<u>1,566,392</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	4,803	(477)	4,870	36,063	(1,113)	31,135	75,281
Other financing sources (uses)							
Interfund transfers in	1,570	-	-	-	-	-	1,570
Interfund transfers out	-	-	-	-	-	(60,000)	(60,000)
Proceeds from refunding bonds	-	-	8,925,000	-	3,310,000	-	12,235,000
Proceeds from bond premiums	-	-	604,556	-	380,432	-	984,988
Bond issuance costs	-	-	(137,814)	-	(69,340)	-	(207,154)
Payments to refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>(9,395,241)</u>	<u>(64,000)</u>	<u>(3,640,321)</u>	<u>-</u>	<u>(13,099,562)</u>
Total other financing sources	<u>1,570</u>	<u>-</u>	<u>(3,499)</u>	<u>(64,000)</u>	<u>(19,229)</u>	<u>(60,000)</u>	<u>(145,158)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	6,373	(477)	1,371	(27,937)	(20,342)	(28,865)	(69,877)
Fund balances, beginning of year	<u>34,912</u>	<u>29,995</u>	<u>42,882</u>	<u>66,164</u>	<u>25,763</u>	<u>166,905</u>	<u>366,621</u>
Fund balances, end of year	<u>\$ 41,285</u>	<u>\$ 29,518</u>	<u>\$ 44,253</u>	<u>\$ 38,227</u>	<u>\$ 5,421</u>	<u>\$ 138,040</u>	<u>\$ 296,744</u>



DENNIS, GARTLAND & NIERGARTH

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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, 2017, 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 3, 2017.

***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.

*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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a deficiency in internal control over financial reporting, as described below, that we consider 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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

October 3, 2017