

**Onekama Consolidated Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

# CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
BALANCE SHEET - GOVERNMENTAL FUNDS.....	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES .....	9
STATEMENT OF FIDUCIARY NET POSITION.....	10
NOTES TO FINANCIAL STATEMENTS.....	11
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	37
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	38
SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS.....	38
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB - LIABILITY.....	39
SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS.....	39
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS.....	41
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS.....	42
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> .....	43

# 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, 2018. It is to be read in conjunction with the School District’s financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

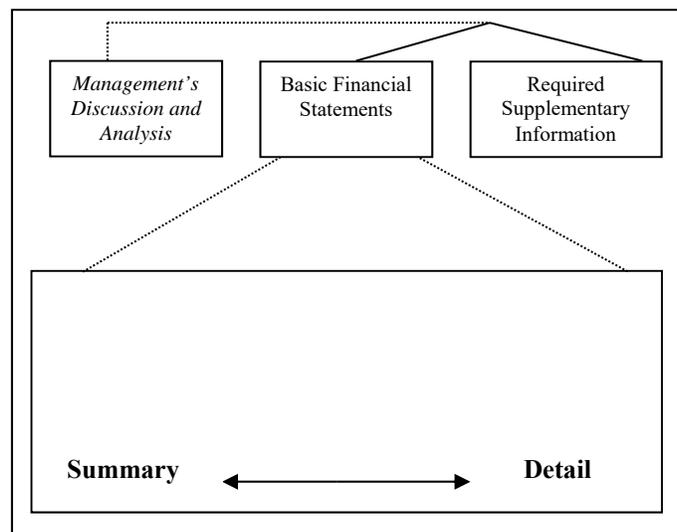
- The School District’s financial status increased during the year due to mid-year staffing adjustments and controls on expenditures.
- The State of Michigan foundation grant increased by \$85 from \$8,197 to \$8,282.

## 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**

	2017*	2018
Current and other assets	\$ 2,723,538	\$ 2,492,225
Capital assets	14,596,659	14,612,408
Total assets	17,320,197	17,104,633
Deferred outflows of resources	1,021,727	1,495,054
Total assets and deferred outflows of resources	\$ 18,341,924	\$ 18,599,687
Long-term debt outstanding	\$ 14,741,319	\$ 13,943,046
Other liabilities	1,250,392	1,299,331
Net pension obligation	5,341,350	5,566,645
Net OPEB obligation	-	1,900,598
Total liabilities	21,333,061	22,709,620
Deferred inflows of resources	26,664	369,231
Net position		
Invested in property and equipment, net of related debt	853,147	1,399,604
Restricted for		
Food Service	41,285	42,316
Debt Service	-	-
Unrestricted/(deficit)	(3,912,233)	(5,921,084)
Total net position	(3,017,801)	(4,479,164)
Total liabilities, deferred inflows of resources and net position	\$ 18,341,924	\$ 18,599,687

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

**Table A-4**

Revenues	2017*	2018
Property Taxes, levied for general purposes	\$ 2,868,188	\$ 2,930,206
Property Taxes, levied for debt services	1,177,622	1,205,341
Property Taxes, levied for sinking fund	-	295,219
State aid not restricted to specific purposes	844,038	875,415
Interest and other	214,765	185,732
Charges for services	323,662	310,040
Operating grants/contributions	435,883	562,255
Total revenues	<u>5,864,158</u>	<u>6,364,208</u>
Expenses		
Instruction	2,540,808	2,458,029
Support services	1,808,989	1,903,214
Community services	8,456	5,289
Food services	220,248	224,281
Leaps and bounds	201,247	204,023
Other	252,413	11,633
Interest on long-term debt	501,679	578,075
Depreciation-unallocated	519,442	516,658
Total expenses	<u>6,053,282</u>	<u>5,901,202</u>
Change in net position	(189,124)	463,006
Net position - Beginning of year	<u>(2,828,677)</u>	<u>(4,942,170)</u>
Net position - End of year	<u>\$ (3,017,801)</u>	<u>\$ (4,479,164)</u>

\* The School District implemented GASB 75 during the year ended June 30, 2018. The impact on the statement of net position and expenses for the year ended June 30, 2017 is unknown and, therefore, 2018 and 2017 are not comparable for items related to GASB 75.

## **PENSION AND OPEB EXPENSE**

GASB 68 and GASB 75 now require 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 pension and net OPEB liabilities increases or decreases in any given year. For the year ended June 30, 2018, the School District recorded \$5,566,645 and \$1,900,598 as their proportionate share of the net pension and net OPEB liabilities, respectively.

## 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 \$2,093,133; a decrease of \$301,929 from last year's ending fund balances of \$2,395,042.

### 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 \$85,915, the actual results for the year show an increase of \$27,272 due to final adjustments to personnel and conservative budgeting of expense line items.
- Actual revenues were \$4,422,558 or \$16,796 more than expected, due primarily to final grant allocations.
- Actual expenditures were \$4,345,920 or \$95,665 below budget, due primarily to conservative budgeting of supplies and utilities.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Depreciable assets for the 2017-2018 school year totaled \$19,828,991. A summary of capital assets follows:

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

	2017	Additions	Deletions	2018
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Construction-in-process	-	335,116	-	335,116
Total non-depreciable	401,996	335,116	-	737,082
Capital assets being depreciated:				
Building and building improvements	18,064,953	93,992	-	18,158,945
Buses and other vehicles	487,514	42,797	-	530,311
Furniture and equipment	1,038,808	60,502	-	1,099,310
Gross capital assets	19,591,275	197,291	-	19,788,566
Less accumulated depreciation:	(5,396,582)	(516,658)	-	(5,913,240)
Net governmental capital assets	<u>\$ 14,596,659</u>	<u>\$ 15,749</u>	<u>\$ -</u>	<u>\$ 14,612,408</u>

## Long-term Debt

At year-end the District had \$13,475,000 in general obligation bonds and \$85,048 in note payable obligations.

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

	2017	Net Additions/ (Payments)	2018
General obligation debts (financed with property taxes)	\$14,125,000	\$(650,000)	\$13,475,000
Note Payable/Capital lease	173,935	(88,887)	85,048
Unamortized bond premium	1,119,825	(78,526)	1,041,299
Early retirement liability	30,142	(11,842)	18,300
Accumulated sick & vacation	121,672	10,646	132,318
Total	<u>\$15,570,574</u>	<u>\$(818,609)</u>	<u>\$14,751,965</u>

Additional information on the District's long-term debt can be found in Note G on page 19 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 2018-2019 foundation allowance will increase by a range from \$120 - \$240. Student enrollment is always fluctuating and a concern and will be closely monitored.
- The Board of Education and the Onkama Education Association have a contract through August, 2019.

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



DENNIS, GARTLAND & NIERGARTH

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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, 2018, 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, 2018, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### *Accounting Change*

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions, during the year ended June 30, 2018.

### ***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 viii, budgetary comparison information on page 37, Pension contribution schedule on page 38 and OPEB contribution schedule on page 39 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 1, 2018, 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 1, 2018

**Onekama Consolidated Schools**  
**STATEMENT OF NET POSITION**  
June 30, 2018

Governmental  
Activities

**ASSETS AND DEFERRED OUTFLOW OF RESOURCES**

**ASSETS**

Current assets

Cash and equivalents	\$ 2,227,555
Other receivables	3,262
Due from other governments	240,626
Prepaid expenses	<u>20,782</u>

Total current assets 2,492,225

Non-current assets

Capital assets, net of accumulated depreciation	<u>14,612,408</u>
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Total assets 17,104,633

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred loss on refunding	430,108
Deferred outflows for pension obligation	956,461
Deferred outflows for OPEB obligation	<u>108,485</u>

Total deferred outflows of resources 1,495,054

Total assets and deferred outflows of resources \$ 18,599,687

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

**LIABILITIES**

Current liabilities

Accounts payable	\$ 42,620
Salaries payable and related liabilities	338,953
Accrued interest	91,300
Unearned revenue	17,539
Current portion of long-term liabilities	<u>808,919</u>

Total current liabilities 1,299,331

Non-current portion of long-term liabilities

Net pension obligation	13,943,046
Net OPEB obligation	<u>5,566,645</u>

Total liabilities 22,709,620

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows for pension obligation	304,977
Deferred inflows for OPEB obligation	<u>64,254</u>

Total deferred inflows of resources 369,231

**NET POSITION**

Invested in capital assets, net of related debt 1,399,604

Restricted for

Food Service 42,316

Unrestricted (deficit) (5,921,084)

Total net position (4,479,164)

Total liabilities, deferred inflows of resources and net position \$ 18,599,687

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

**Onekama Consolidated Schools**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

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	\$ 2,458,029	\$ -	\$ 312,485	\$ (2,145,544)
Supporting Services	1,903,214	75,528	90,086	(1,737,600)
Community Services	5,289	-	-	(5,289)
Food Service	224,281	59,894	155,468	(8,919)
Leaps and Bounds	204,023	174,618	4,216	(25,189)
Other	11,633	-	-	(11,633)
Interest on long-term debt	578,075	-	-	(578,075)
Depreciation, unallocated	516,658	-	-	(516,658)
Total governmental activities	<u>\$ 5,901,202</u>	<u>\$ 310,040</u>	<u>\$ 562,255</u>	<u>(5,028,907)</u>
General purpose revenues				
Property taxes				
Levied for general purposes				2,930,206
Levied for Debt Service				1,205,341
Levied for Sinking Fund				295,219
State school aid - unrestricted				875,415
Investments and other				<u>185,732</u>
Total general purpose revenues				<u>5,491,913</u>
Change in net position				463,006
Net position, beginning of year, <i>as restated</i>				<u>(4,942,170)</u>
Net position, end of year				<u>\$ (4,479,164)</u>

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

## Onekama Consolidated Schools

### BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	Major Fund			Total Governmental Funds
	General Fund	2017 Capital Projects Fund	Non-major Governmental Funds	
<b>ASSETS</b>				
Cash and equivalents	\$ 582,513	\$ 1,364,206	\$ 280,836	\$ 2,227,555
Due from other governments	233,449	-	7,177	240,626
Accounts receivables	-	-	3,262	3,262
Due from other funds	28,026	-	34,158	62,184
Prepaid expenditures	12,430	-	8,352	20,782
	<u>\$ 856,418</u>	<u>\$ 1,364,206</u>	<u>\$ 333,785</u>	<u>\$ 2,554,409</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 39,582	\$ 2,689	\$ 349	\$ 42,620
Salaries payable and related liabilities	335,976	-	2,977	338,953
Due to other funds	17,888	5,590	38,706	62,184
Unearned revenue	12,650	-	4,889	17,539
	<u>406,096</u>	<u>8,279</u>	<u>46,921</u>	<u>461,296</u>
<b>FUND BALANCES</b>				
Nonspendable - prepaids	12,430	-	8,352	20,782
Restricted				
Debt Service	-	-	103,310	103,310
Capital Projects	-	1,355,927	32,616	1,388,543
Food Service	-	-	40,964	40,964
Committed				
Subsequent year expenditures	84,771	-	-	84,771
Leaps and Bounds	-	-	12,157	12,157
Assigned				
Building improvements	-	-	96,465	96,465
Compensated absences	132,318	-	-	132,318
Early retirement incentives	18,300	-	-	18,300
Unassigned	202,503	-	(7,000)	195,503
	<u>450,322</u>	<u>1,355,927</u>	<u>293,864</u>	<u>2,093,113</u>
Total liabilities and fund balances	<u>\$ 856,418</u>	<u>\$ 1,364,206</u>	<u>\$ 340,785</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 \$20,525,648 and the accumulated depreciation is \$5,913,240.	14,612,408
Deferred outflows of resources is not a financial resource and, therefore, is not reported as an asset in governmental funds.	1,495,054
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	13,475,000
Notes payable	85,048
Unamortized bond premium	1,041,299
Accrued interest on bonds	91,300
Early retirement incentive payable	18,300
Accumulated leave liability	132,318
Net pension obligation	5,566,645
Net OPEB obligation	1,900,598
	(22,310,508)
Deferred inflows of resources is not a financial resource and, therefore, is not reported as a liability in governmental funds.	(369,231)
Total net position - governmental activities	\$ (4,479,164)

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

**Onekama Consolidated Schools**

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

Year Ended June 30, 2018

	Major Funds		Non-major Governmental Funds	Total Governmental Funds
	General Fund	2017 Capital Projects Fund		
Revenues				
Property taxes	\$ 2,930,206	\$ -	\$ 1,500,560	\$ 4,430,766
Interest	9,118	22,181	5,250	36,549
State revenues	1,146,452	-	9,139	1,155,591
Federal revenues	123,866	-	150,545	274,411
Other	212,916	-	253,975	466,891
Total revenues	<u>4,422,558</u>	<u>22,181</u>	<u>1,919,469</u>	<u>6,364,208</u>
Expenditures				
Instruction	2,433,380	-	-	2,433,380
Supporting Services	1,884,254	-	-	1,884,254
Community Services	5,289	-	-	5,289
Food Service	-	-	224,281	224,281
Leaps and Bounds	-	-	204,023	204,023
Other	2,500	796	-	3,296
Debt Service				
Principal	37,771	-	650,000	687,771
Interest	6,995	-	539,285	546,280
Other	-	-	3,462	3,462
Capital outlay	22,997	340,706	310,398	674,101
Total expenditures	<u>4,393,186</u>	<u>341,502</u>	<u>1,931,449</u>	<u>6,666,137</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>29,372</u>	<u>(319,321)</u>	<u>(11,980)</u>	<u>(301,929)</u>
Other financing sources (uses)				
Interfund transfers in	-	-	2,100	2,100
Interfund transfers out	(2,100)	-	-	(2,100)
Total other financing sources	<u>(2,100)</u>	<u>-</u>	<u>2,100</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>27,272</u>	<u>(319,321)</u>	<u>(9,880)</u>	<u>(301,929)</u>
Fund balances, beginning of year	<u>423,050</u>	<u>1,675,248</u>	<u>296,744</u>	<u>2,395,042</u>
Fund balances, end of year	<u>\$ 450,322</u>	<u>\$ 1,355,927</u>	<u>\$ 286,864</u>	<u>\$ 2,093,113</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, 2018

**Total net change in fund balances - governmental funds** \$ (301,929)

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	\$ 532,407	
Depreciation expense	<u>(516,658)</u>	15,749

Change in deferred outflows of resources for loss on refunding of bonds (33,136)

Change in deferred outflows of resources for pension obligation of \$397,978 and OPEB obligation of \$28,144. 426,122

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 \$10,646. Early retirement incentives payments were \$11,842. 1,196

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. 738,887

Net amortization of bond premium. 78,526

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. 1,341

Increase in net pension liability. (225,295)

Decrease in net OPEB liability. 104,112

Change in deferred inflows of resources for pension obligation of \$(278,313) and OPEB obligation of \$(64,254). (342,567)

**Changes in net position of governmental activities** \$ 463,006

**Onekama Consolidated Schools**  
STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2018

Agency Funds

**ASSETS**

Cash and cash equivalents

\$ 139,228

**LIABILITIES**

Due to student groups

\$ 139,228

# 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, 2018, the School District employed 26 professional staff and 30 non-professional staff, and had 435 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, 2018.

#### *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.

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.

The Sinking Fund records capital projects activities funded with Sinking Fund millage. For this fund, the school district has complied with the applicable provisions of Section 1212 of the Revised School Code.

*Fiduciary Funds*

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

*Cash and Cash Equivalents*

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

*Capital Assets*

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

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

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

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

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

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

***Deferred Inflows and Outflows***

In addition to assets and liabilities, the statement of financial position includes separate sections for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) 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 and OPEB obligations. See Note J for details of deferred outflows and inflows related to the pension obligation, and Note K for the OPEB obligation.

***Fund Equity***

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

***Program Revenues***

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

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

***Spending Policy***

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

***Pension Plan***

For purposes of measuring the net position, liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System ("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.

***Post-Employment Benefits Other than Pensions***

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School 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 - ACCOUNTING CHANGES**

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75 (“GASB 75”), *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, an amendment of GASB Statement No. 45. GASB 75 improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 75 requires employers to report net OPEB benefits as a liability in the statement of net position. GASB 75 requires immediate recognition of the OPEB expense, including annual service cost and interest, and the effect of changes in benefit terms on the net OPEB liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. GASB 75 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net OPEB liability.

The School District implemented GASB 75 during the year by retroactive restatement of June 30, 2017 net position, as follows:

Net position at June 30, 2017, <i>as originally stated</i>	\$ (3,017,801)
Record net OPEB liability at June 30, 2017	<u>(1,924,369)</u>
Net position at June 30, 2017, <i>as restated</i>	<u>\$ (4,942,170)</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, 2018, the School District was not in compliance with that provision as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General administration	251,608	258,335	6,727
Other central support	298,224	307,250	9,026

**NOTE D - CASH AND EQUIVALENTS**

At June 30, 2018, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Bank deposits	\$ 588,342
Investments	<u>1,778,441</u>
	<u><u>\$ 2,366,783</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, 2018, \$8,191 of the School District's and Agency bank balance of \$562,319 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, 2018 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>\$ 1,778,441</u>	<u>\$ 1,778,441</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 E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE**

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

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due 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 \$161.66 million and \$6 per \$1,000 of equalized commercial personal property value of \$2.33 million was levied for general operating purposes. For Debt Service, \$4.08 per \$1,000 of total equalized property value of \$300.38 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$1 per \$1,000 of total equalized property value of \$300.38 million was levied for the replacement of roofs, unit ventilators and condensing units; upgrades to boilers and heating systems; and adding a new stairway in the parking lot.

### ***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, 2018 are as follows:

Due from the State of Michigan - State aid	\$ 201,802
Due from Federal grants	30,044
Due from other sources	<u>8,780</u>
	<u>\$ 240,626</u>

**NOTE F - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Buildings and improvements	\$ 18,064,953	\$ 93,992	\$ -	\$ 18,158,945
Buses and vehicles	487,514	42,797	-	530,311
Furniture and equipment	<u>1,038,808</u>	<u>60,502</u>	<u>-</u>	<u>1,099,310</u>
Total depreciable assets	19,591,275	197,291	-	19,788,566
Less accumulated depreciation	(5,396,582)	(516,658)	-	(5,913,240)
Construction-in-process	-	335,116	-	335,116
Land	<u>401,966</u>	<u>-</u>	<u>-</u>	<u>401,966</u>
Total capital assets, net	<u>\$ 14,596,659</u>	<u>\$ 15,749</u>	<u>\$ -</u>	<u>\$ 14,612,408</u>

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

Unallocated	<u>\$ 516,658</u>
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**NOTE G - LONG-TERM LIABILITIES**

Changes in long-term liabilities during the year ended June 30, 2018 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	\$ 14,125,000	\$ -	\$ (650,000)	\$ 13,475,000	\$ 685,000
Notes payable	117,944	-	(32,896)	85,048	33,551
Capital lease	55,991	-	(55,991)	-	-
Unamortized bond premium	1,119,825	-	(78,526)	1,041,299	78,526
Early retirement liability	30,142	-	(11,842)	18,300	11,842
Accumulated leave liability	<u>121,672</u>	<u>10,646</u>	<u>-</u>	<u>132,318</u>	<u>-</u>
Long-term liabilities	<u>\$ 15,570,574</u>	<u>\$ 10,646</u>	<u>\$ (829,255)</u>	<u>\$ 14,751,965</u>	<u>\$ 808,919</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, 2018, 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 \$185,000 to \$445,000 through May 2033; interest rate of 4.00%; due semi-annually.	\$ 4,810,000
\$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 \$450,000 to \$775,000 through May 2032; interest rate of 4.00%; due semi-annually.	<u>8,665,000</u>
Total general obligation bonds	13,475,000
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.	50,829
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.	<u>34,219</u>
Total general obligation bonds, notes payable and capital leases	13,560,048
Unamortized bond premium	1,041,299
Early retirement liability	18,300
Accumulated leave liability	<u>132,318</u>
Total long-term liabilities	<u><u>\$14,751,965</u></u>

Total annual requirements to amortize general obligation bonds, notes payable and capital leases payable as of June 30, 2018 are as follows:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>
2019	\$ 718,551	\$ 540,692
2020	774,219	512,625
2021	802,278	482,344
2022	820,000	450,600
2023	860,000	417,800
2024-2028	4,820,000	1,546,400
2029-2033	<u>4,765,000</u>	<u>504,000</u>
	<u><u>\$13,560,048</u></u>	<u><u>\$ 4,454,461</u></u>

Interest expense for the year ended June 30, 2018 was \$578,075, and interest paid was \$546,280.

NOTES TO FINANCIAL STATEMENTS - Continued

***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, 2018, the amount due to teachers in the program was \$18,300.

***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	\$ 78,349	\$ -	\$ (5,312)	\$ 73,037
2016 Refunding bonds	<u>384,895</u>	<u>-</u>	<u>(27,824)</u>	<u>357,071</u>
Total deferred outflows	<u>\$ 463,244</u>	<u>\$ -</u>	<u>\$ (33,136)</u>	<u>\$ 430,108</u>

**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, 2018, 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 I - 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	\$ 28,026	\$ 17,888
2017 Capital Projects	-	5,590
Other Governmental Funds		
Food Service	11,270	17,532
Leaps and Bounds	12,298	11,270
2017 Debt Retirement	5,000	4,904
2017 Debt Retirement	-	5,000
Sinking Fund	<u>5,590</u>	<u>-</u>
	<u>\$ 62,184</u>	<u>\$ 62,184</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>
Other Governmental Funds		Major Governmental Funds	
Food Service Fund	<u>\$ 2,100</u>	General Fund	<u>\$ 2,100</u>

## NOTE J - PENSION PLAN

### *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's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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/orsschools](http://www.michigan.gov/orsschools).

### *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***

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, 2017 will be amortized over a 20 year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2017:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	19.03%
Member Investment Plan	3.0-7.0%	19.03%
Pension Plus	3.0-6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were \$503,844 for the year ended September 30, 2017.

The School District's contributions to the MPSERS Defined Contribution Plan were \$5,279 for the year ended June 30, 2018, which is equal to the pension expense recognized by the School District for the year.

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, 2018, the School District reported a liability of \$5,566,645 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. 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, 2017, the School District's proportion was 0.02148%, which was an increase of 0.00007% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$595,661. At June 30, 2018, 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	\$ 48,378	\$ 27,314
Changes of assumptions	609,870	-
Net difference between projected and actual earnings on pension plan investments	-	266,122
Changes in proportion and differences between School District contributions and proportionate share of contributions	58,073	11,541
School District contributions subsequent to the measurement date	<u>240,140</u>	<u>-</u>
Total	<u>\$ 956,461</u>	<u>\$ 304,977</u>

From the above table, \$240,140 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, 2019. 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>
2018	\$ 120,081
2019	210,155
2020	90,950
2021	<u>(9,842)</u>
Total	<u>\$ 411,344</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, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	7.5%
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, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: 4.5188 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

***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, 2017, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Private Equity Pools	18.0	8.7
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short-Term Investment Pools	2.0	(0.9)
	100.0 %	

*\*Long-term rate of return does not include 2.3% inflation.*

***Rate of Return***

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***Discount Rate***

A discount rate of 7.5% 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 7.5% (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 7.5% (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) (6.5% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (7.5% / 7.0%)	1% Increase (Non-Hybrid/Hybrid) (8.5% / 8.0%)
\$ 7,251,488	\$ 5,566,645	\$ 4,148,116

***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 2017 MPERS Comprehensive Annual Financial Report ("CAFR"), available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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

The School District reported \$73,232 and \$194 payable to the plan at June 30, 2018 for legally required defined benefit and defined contribution plan contributions, respectively.

**NOTE K - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

***Plan Description***

The Michigan Public School Employees' Retirement System (System or 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's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & 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 on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### ***Benefits Provided***

Benefit provisions of the post-employment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Post-Employment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

### ***Contributions***

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.

NOTES TO FINANCIAL STATEMENTS - Continued

Employer OPEB 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 the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

<u>OPEB Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from the School District were \$167,094 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$1,900,598 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the systems during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.02146% percent, which was unchanged from its proportion measured as of October 1, 2016.

NOTES TO FINANCIAL STATEMENTS - Continued

For the year ended June 30, 2018, the School District recognized OPEB expense of \$127,215. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 20,236
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	44,018
Changes in proportion and differences between School District contributions and proportionate share of contributions	396	-
School District contributions subsequent to the measurement date	<u>108,089</u>	<u>-</u>
Total	<u>\$ 108,485</u>	<u>\$ 64,254</u>

From the above table, \$108,089 contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2018	\$ (15,438)
2019	(15,438)
2020	(15,438)
2021	(15,438)
2022	<u>(2,106)</u>
Total	<u>\$ (63,858)</u>

***Actuarial Assumptions***

Projections 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.

## NOTES TO FINANCIAL STATEMENTS - Continued

Additional information as of the latest actuarial 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:	7.5%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
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.

### Other Assumptions

Opt Out Assumptions:	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage:	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement:	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

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 OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: 5.4744 for non-university employers.
- Recognition period for assets in years is 5.0.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/orsschools](http://www.michigan.gov/orsschools)).

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

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short-Term Investment Pools	2.0	(0.9)
	100.0 %	

*\*Long-term rate of return does not include 2.3% inflation.*

***Rate of Return***

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***Discount Rate***

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 2,226,150	\$ 1,900,598	\$ 1,624,307

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate***

The following presents School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 1,609,551	\$ 1,900,598	\$ 2,231,062

***OPEB Plan Fiduciary Net Position***

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

***Payables to the OPEB Plan***

The School District reported \$3,525 payable to the Plan at June 30, 2018 for the OPEB liability.

**NOTE L - COMMITMENTS AND CONTINGENCIES**

***School Improvement Commitment***

As of June 30, 2018, 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 during the year ended June 30, 2017, 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, 2018, \$378,140 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$1,356,000. The 2017 Capital Projects Fund balance was approximately \$1,356,000 at June 30, 2018. The expected completion date is July 2019.

***Federal and State Grants***

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

***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Onekama Education Association. The Board of Education and the Onekama Education Association have a contract through August 31, 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Onekama Consolidated Schools

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2018

	<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	\$ 3,137,294	\$ 3,094,612	\$ 3,106,436	\$ (42,682)	\$ 11,824
State revenues	873,546	1,141,567	1,146,452	268,021	4,885
Federal revenues	117,336	129,983	123,866	12,647	(6,117)
Other	<u>25,300</u>	<u>39,600</u>	<u>45,804</u>	<u>14,300</u>	<u>6,204</u>
Total revenues	<u>4,153,476</u>	<u>4,405,762</u>	<u>4,422,558</u>	<u>252,286</u>	<u>16,796</u>
<b>Expenditures</b>					
Instruction					
Basic programs	1,894,907	2,114,427	2,073,105	(219,520)	41,322
Added needs	<u>514,798</u>	<u>384,612</u>	<u>360,275</u>	<u>130,186</u>	<u>24,337</u>
Total instruction	<u>2,409,705</u>	<u>2,499,039</u>	<u>2,433,380</u>	<u>(89,334)</u>	<u>65,659</u>
Support services					
Pupil support	91,122	131,864	123,397	(40,742)	8,467
Instruction staff support	21,342	55,208	50,110	(33,866)	5,098
General administration	240,229	251,608	258,335	(11,379)	(6,727)
School administration	234,902	240,094	231,110	(5,192)	8,984
Business services	135,904	144,058	143,879	(8,154)	179
Operations and maintenance	611,861	613,069	606,805	(1,208)	6,264
Transportation	151,305	201,921	186,365	(50,616)	15,556
Other central support	<u>270,394</u>	<u>298,224</u>	<u>307,250</u>	<u>(27,830)</u>	<u>(9,026)</u>
Total support services	<u>1,757,059</u>	<u>1,936,046</u>	<u>1,907,251</u>	<u>(178,987)</u>	<u>28,795</u>
Community services	<u>8,500</u>	<u>6,500</u>	<u>5,289</u>	<u>2,000</u>	<u>1,211</u>
Total expenditures	<u>4,175,264</u>	<u>4,441,585</u>	<u>4,345,920</u>	<u>(266,321)</u>	<u>95,665</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(21,788)</u>	<u>(35,823)</u>	<u>76,638</u>	<u>(14,035)</u>	<u>112,461</u>
Other financing sources (uses)					
Interfund transfers out	(2,100)	(2,100)	(2,100)	-	-
Other financing uses	<u>(48,670)</u>	<u>(47,992)</u>	<u>(47,266)</u>	<u>678</u>	<u>726</u>
Total other financing sources (uses)	<u>(50,770)</u>	<u>(50,092)</u>	<u>(49,366)</u>	<u>678</u>	<u>726</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(72,558)</u>	<u>(85,915)</u>	<u>27,272</u>	<u>(13,357)</u>	<u>113,187</u>
Fund balance, beginning of year	<u>482,586</u>	<u>423,050</u>	<u>423,050</u>	<u>(59,536)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 410,028</u>	<u>\$ 337,135</u>	<u>\$ 450,322</u>	<u>\$ (72,893)</u>	<u>\$ 113,187</u>

## Onkama Consolidated Schools

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

#### Michigan Public School Employees Retirement Plan

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.02148102 %	0.02140892 %	0.02124000 %	0.02099000 %
School District's proportionate share of net pension liability	\$ 5,566,645	\$ 5,341,350	\$ 5,187,954	\$ 4,622,464
School District's covered-employee payroll	1,795,701	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	310.00 %	294.67 %	291.84 %	257.79 %
Plan fiduciary net position as a percentage of total pension liability	64.21 %	63.27 %	63.17 %	66.20 %

### SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

#### Michigan Public School Employees Retirement Plan

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 322,351	\$ 331,625	\$ 409,753	\$ 405,928
School District contributions made to the Plan	322,351	331,625	409,753	405,928
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 1,799,872	\$ 1,783,113	\$ 1,834,224	\$ 1,872,695
Contributions as a percentage of covered-employee payroll	17.91 %	18.60 %	22.34 %	21.68 %

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

## Onekama Consolidated Schools

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

#### Michigan Public School Employees Retirement Plan

	<u>9/30/2017</u>
School District's proportion of collective net OPEB liability	0.02146242 %
School District's proportionate share of net OPEB liability	\$ 1,900,598
School District's covered-employee payroll (OPEB)	1,795,701
School District's proportionate share of net OPEB liability as a percentage of covered-employee payroll	105.84 %
Plan fiduciary net position as a percentage of total OPEB liability	36.39 %

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

#### Michigan Public School Employees Retirement Plan

	<u>6/30/2018</u>
Statutorily required OPEB contributions	\$ 134,500
OPEB contributions in relation to statutorily required contributions	<u>134,500</u>
Contributions deficiency (excess)	<u><u>\$ -</u></u>
School District's covered-employee payroll (OPEB)	\$ 1,799,872
OPEB contributions as a percentage of covered-employee payroll	7.47 %

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

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

**Onekama Consolidated Schools**

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

June 30, 2018

	<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>2016 Debt Retirement Fund</u>	<u>2016 Debt Retirement Fund</u>	<u>2017 Debt Retirement Fund</u>	<u>2017 Debt Retirement Fund</u>	<u>Capital Projects Fund</u>	<u>Sinking Fund</u>	
<b>ASSETS</b>									
Cash and cash equivalents	\$ 43,754	\$ 12,377	\$ 42,603	\$ 45,508	\$ 1,455	\$ 18,648	\$ 96,465	\$ 20,026	\$ 280,836
Due from other governments	7,177	-	-	-	-	-	-	-	7,177
Accounts receivables	-	3,262	-	-	-	-	-	-	3,262
Due from other funds	11,270	12,298	-	-	5,000	-	-	5,590	34,158
Prepaid expenditures	1,352	-	-	-	-	-	-	7,000	8,352
Total assets	<u>\$ 63,553</u>	<u>\$ 27,937</u>	<u>\$ 42,603</u>	<u>\$ 45,508</u>	<u>\$ 6,455</u>	<u>\$ 18,648</u>	<u>\$ 96,465</u>	<u>\$ 32,616</u>	<u>\$ 333,785</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 286	\$ 63	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 349
Salaries payable and related liabilities	622	2,355	-	-	-	-	-	-	2,977
Due to other funds	17,532	11,270	-	-	4,904	5,000	-	-	38,706
Unearned revenue	2,797	2,092	-	-	-	-	-	-	4,889
Total liabilities	<u>21,237</u>	<u>15,780</u>	<u>-</u>	<u>-</u>	<u>4,904</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>46,921</u>
<b>FUND BALANCES</b>									
Nonspendable - prepaids	1,352	-	-	-	-	-	-	7,000	8,352
Restricted									
Debt Service	-	-	42,603	45,508	1,551	13,648	-	-	103,310
Capital Projects	-	-	-	-	-	-	-	32,616	32,616
Food Service	40,964	-	-	-	-	-	-	-	40,964
Committed - Leaps and Bounds	-	12,157	-	-	-	-	-	-	12,157
Assigned - Building Improvements	-	-	-	-	-	-	96,465	-	96,465
Total fund balances	<u>42,316</u>	<u>12,157</u>	<u>42,603</u>	<u>45,508</u>	<u>1,551</u>	<u>13,648</u>	<u>96,465</u>	<u>39,616</u>	<u>293,864</u>
Total liabilities and fund balances	<u>\$ 63,553</u>	<u>\$ 27,937</u>	<u>\$ 42,603</u>	<u>\$ 45,508</u>	<u>\$ 6,455</u>	<u>\$ 18,648</u>	<u>\$ 96,465</u>	<u>\$ 39,616</u>	<u>\$ 340,785</u>

**Onekama Consolidated Schools**

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

Year Ended June 30, 2018

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>				<u>Capital Projects Fund</u>	<u>Sinking Fund</u>	<u>Total Non-Major Governmental</u>
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2016 Debt Retirement Fund</u>	<u>2016 Debt Retirement Fund</u>	<u>2017 Debt Retirement Fund</u>	<u>2017 Debt Retirement Fund</u>			
Revenues									
Property taxes	\$ -	\$ -	\$ 614,346	\$ 254,165	\$ 105,645	\$ 231,185	\$ -	\$ 295,219	\$ 1,500,560
Interest	549	159	1,598	961	255	1	1,322	405	5,250
State revenues	9,139	-	-	-	-	-	-	-	9,139
Federal revenues	146,329	4,216	-	-	-	-	-	-	150,545
Other	<u>67,195</u>	<u>182,287</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,493</u>	<u>-</u>	<u>253,975</u>
Total revenues	<u>223,212</u>	<u>186,662</u>	<u>615,944</u>	<u>255,126</u>	<u>105,900</u>	<u>231,186</u>	<u>5,815</u>	<u>295,624</u>	<u>1,919,469</u>
Expenditures									
Food Service	224,281	-	-	-	-	-	-	-	224,281
Leaps and Bounds	-	204,023	-	-	-	-	-	-	204,023
Debt Service									
Principal	-	-	260,000	235,000	105,000	50,000	-	-	650,000
Interest	-	-	357,000	11,750	3,675	166,860	-	-	539,285
Other	-	-	594	1,095	1,095	678	-	-	3,462
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,390</u>	<u>263,008</u>	<u>310,398</u>
Total expenditures	<u>224,281</u>	<u>204,023</u>	<u>617,594</u>	<u>247,845</u>	<u>109,770</u>	<u>217,538</u>	<u>47,390</u>	<u>263,008</u>	<u>1,931,449</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(1,069)	(17,361)	(1,650)	7,281	(3,870)	13,648	(41,575)	32,616	(11,980)
Other financing sources (uses)									
Interfund transfers in	<u>2,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,100</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	1,031	(17,361)	(1,650)	7,281	(3,870)	13,648	(41,575)	32,616	(9,880)
Fund balances, beginning of year	<u>41,285</u>	<u>29,518</u>	<u>44,253</u>	<u>38,227</u>	<u>5,421</u>	<u>-</u>	<u>138,040</u>	<u>-</u>	<u>296,744</u>
Fund balances, end of year	<u>\$ 42,316</u>	<u>\$ 12,157</u>	<u>\$ 42,603</u>	<u>\$ 45,508</u>	<u>\$ 1,551</u>	<u>\$ 13,648</u>	<u>\$ 96,465</u>	<u>\$ 32,616</u>	<u>\$ 286,864</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, 2018, 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 1, 2018.

***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 1, 2018