

Onekama Consolidated Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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.....	31
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS.....	33
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS.....	34
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>	35

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, 2016. It is to be read in conjunction with the School District’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

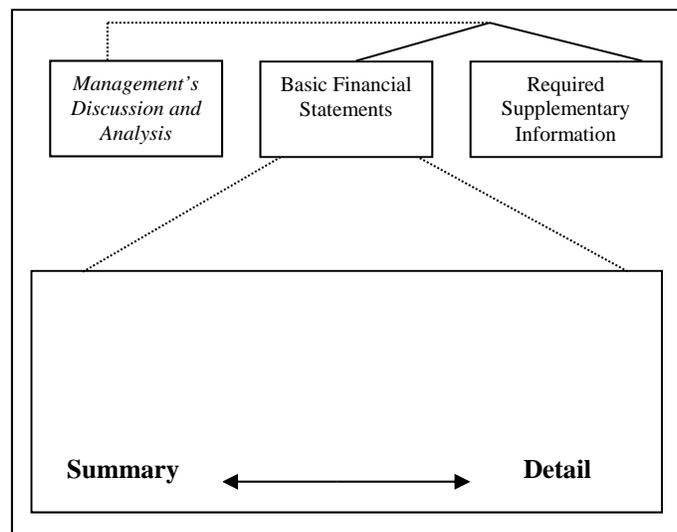
- The School District’s financial status decreased during the year due to an increase in expenditures, specifically bus maintenance and building repairs and maintenance.
- The State of Michigan foundation grant increased by \$102 from \$8,009 to \$8,111.

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.

Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net 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

	2015	2016
Current and other assets	\$ 1,241,776	\$ 1,171,099
Capital assets	<u>15,569,732</u>	<u>15,116,101</u>
Total assets	16,811,508	16,287,200
Deferred outflows of resources	<u>494,985</u>	<u>518,596</u>
Total assets and deferred outflows of resources	<u>\$ 17,306,493</u>	<u>\$ 16,805,796</u>
Long-term debt outstanding	\$ 13,912,423	\$ 13,277,922
Other liabilities	1,096,791	1,151,413
Net pension obligation	<u>4,622,464</u>	<u>5,187,954</u>
Total liabilities	<u>19,631,678</u>	<u>19,617,289</u>
Deferred inflows of resources	<u>511,015</u>	<u>17,184</u>
Net position		
Invested in property and equipment, net of related debt	1,116,603	1,265,441
Restricted for		
Food Service	43,468	33,912
Debt Service	76,567	34,914
Unrestricted/(deficit)	<u>(4,072,838)</u>	<u>(4,162,944)</u>
Total net position	<u>(2,836,200)</u>	<u>(2,828,677)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,306,493</u>	<u>\$ 16,805,796</u>

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

Table A-4

Revenues	2015	2016
Property Taxes, levied for general purposes	\$ 2,765,345	\$ 2,791,502
Property Taxes, levied for debt services	1,201,638	1,154,232
State aid not restricted to specific purposes	728,408	770,207
Interest and other	113,516	132,861
Charges for services	288,426	320,142
Operating grants/contributions	459,809	561,828
Total revenues	5,557,142	5,730,772
Expenses		
Instruction	2,470,306	2,437,129
Support services	1,625,801	1,721,120
Community services	8,593	5,626
Food services	220,812	228,942
Leaps and bounds	162,684	182,210
Other	9,228	8,925
Interest on long-term debt	621,764	601,283
Depreciation-unallocated	529,135	538,014
Total expenses	5,648,323	5,723,249
Change in net position	(91,181)	7,523
Net position - Beginning of year	(2,745,019)	(2,836,200)
Net position - End of year	\$ (2,836,200)	\$ (2,828,677)

PENSION EXPENSE

GASB 68 now requires the School District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the School District's change in net position. Based on various factors, the School District may report an increase or decrease in net position depending on whether the School District's proportionate share of the net position liability increases or decreases in any given year. For the year ended June 30, 2016, the School District recorded \$5,187,954 as their proportionate share of the net pension liability

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the School District as a whole is reflected in its governmental funds as well. As the School District completed the year, its governmental funds reported combined fund balances of \$849,207; a decrease of \$96,409 over last year's ending fund balances of \$945,616.

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 \$159,205, the actual results for the year show a decrease of \$43,322 due to final adjustments to personnel and conservative budgeting of expense line items.
- Actual revenues were \$4,152,235 or \$34,047 less than expected, due primarily to final grant allocations.
- Actual expenditures were \$4,199,791 or \$119,545 below budget, due primarily to conservative budgeting of supplies and utilities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2015-2016 school year totaled \$19,641,427. During the year, the School District invested an additional \$84,383 in a bus. A summary of capital assets follows:

Table A-5
OCS's Capital Assets

	2015	Additions	Deletions	2016
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Capital assets being depreciated:				
Building and building improvements	18,064,953	-	-	18,064,953
Buses and other vehicles	453,283	84,383		537,666
Furniture and equipment	1,038,808		-	1,038,808
Gross capital assets	19,557,044	84,383		19,641,427
Less accumulated depreciation:	(4,389,278)	(538,014)		(4,927,292)
Net governmental capital assets	<u>\$ 15,569,732</u>	<u>\$ (453,631)</u>	<u>\$ -</u>	<u>\$ 15,116,101</u>

Long-term Debt

At year-end the District had \$13,515,000 in general obligation bonds and \$260,976 in capital lease and note payable obligations.

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

	2015	Net Additions/ (Payments)	2016
General obligation debts (financed with property taxes)	\$ 14,115,000	\$ (600,000)	\$ 13,515,000
Note Payable/Capital lease	258,703	2,273	260,976
Unamortized bond premium	79,426	(4,742)	74,684
Early retirement liability	53,825	(11,841)	41,984
Accumulated sick & vacation	102,863	11,041	113,904
Total	<u>\$ 14,609,817</u>	<u>\$ (603,269)</u>	<u>\$ 14,006,548</u>

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 2016-2017 foundation allowance will increase by a range from \$60 - \$120. Student enrollment is always fluctuating and a concern and will be closely monitored.
- The Board of Education and the Onekama Education Association have a contract through August, 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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



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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, 2016, 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, 2016, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *vii*, and budgetary comparison information on page 31, 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 13, 2016, 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 13, 2016

Onekama Consolidated Schools

STATEMENT OF NET POSITION

June 30, 2016

Governmental
Activities

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

ASSETS

Current assets

Cash and equivalents	\$ 893,710
Other receivables	7,892
Due from other governments	260,904
Prepaid expenses	<u>8,593</u>

Total current assets 1,171,099

Non-current assets

Capital assets, net of accumulated depreciation	<u>15,116,101</u>
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Total assets 16,287,200

DEFERRED OUTFLOWS OF RESOURCES - pension obligations

518,596

Total assets and deferred outflows of resources \$ 16,805,796

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current liabilities

Accounts payable	\$ 19,463
Salaries payable and related liabilities	284,657
Accrued interest	100,895
Unearned revenue	17,772
Current portion of long-term liabilities	<u>728,626</u>

Total current liabilities 1,151,413

Non-current portion of long-term liabilities

13,277,922

Net pension obligation

5,187,954

Total liabilities 19,617,289

DEFERRED INFLOWS OF RESOURCES - pension obligations

17,184

NET POSITION

Invested in capital assets, net of related debt 1,265,441

Restricted for

Debt Service 33,914

Food Service 34,912

Unrestricted (deficit) (4,162,944)

Total net position (2,828,677)

Total liabilities, deferred inflows of resources and net position \$ 16,805,796

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

Onekama Consolidated Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Program	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 2,437,129	\$ -	\$ 214,734	\$ -	\$ (2,222,395)
Supporting Services	1,721,120	65,621	185,383	18,333	(1,451,783)
Community Services	5,626	-	-	-	(5,626)
Food Service	228,942	72,325	143,378	-	(13,239)
Leaps and Bounds	182,210	182,196	-	-	(14)
Other	8,925	-	-	-	(8,925)
Interest on long-term debt	601,283	-	-	-	(601,283)
Depreciation, unallocated	538,014	-	-	-	(538,014)
Total governmental activities	\$ 5,723,249	\$ 320,142	\$ 543,495	\$ 18,333	(4,841,279)
General purpose revenues					
Property taxes					
Levied for general purposes					2,791,502
Levied for Debt Service					1,154,232
State school aid - unrestricted					770,207
Investments and other					132,861
Total general purpose revenues					4,848,802
Change in net position					7,523
Net position, beginning of year					(2,836,200)
Net position, end of year					\$ (2,828,677)

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

Onekama Consolidated Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	Major Fund			Total Non-major Governmental Funds
	General Fund	Capital Projects Fund	Non-major Governmental Funds	
ASSETS				
Cash and equivalents	\$ 576,913	\$ 126,905	\$ 189,892	\$ 893,710
Due from other governments	252,100	-	5,030	257,130
Accounts receivables	-	-	7,892	7,892
Due from other funds	3,774	40,000	6,743	50,517
Prepaid expenditures	7,404	-	1,189	8,593
Total assets	<u>\$ 840,191</u>	<u>\$ 166,905</u>	<u>\$ 210,746</u>	<u>\$ 1,217,842</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 15,924	\$ -	\$ 3,539	\$ 19,463
Salaries payable and related liabilities	282,020	-	2,637	284,657
Due to other funds	45,302	-	1,441	46,743
Unearned revenue	14,359	-	3,413	17,772
Total liabilities	<u>357,605</u>	<u>-</u>	<u>11,030</u>	<u>368,635</u>
FUND BALANCES				
Nonspendable - prepaids	7,404	-	1,189	8,593
Restricted				
Debt Service	-	-	134,809	134,809
Food Service	-	-	33,723	33,723
Committed				
Subsequent year expenditures	67,834	-	-	67,834
Leaps and Bounds	-	-	29,995	29,995
Assigned				
Building improvements	-	166,905	-	166,905
Compensated absences	113,904	-	-	113,904
Early retirement incentives	41,984	-	-	41,984
Unassigned	251,460	-	-	251,460
Total fund balances	<u>482,586</u>	<u>166,905</u>	<u>199,716</u>	<u>849,207</u>
Total liabilities and fund balances	<u>\$ 840,191</u>	<u>\$ 166,905</u>	<u>\$ 210,746</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 \$20,043,393 and the accumulated depreciation is \$4,927,292.	15,116,101
Deferred outflows of resources is not a financial resource and, therefore, is not reported as an asset in governmental funds.	518,596
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	13,515,000
Notes payable	150,198
Capital lease	110,778
Unamortized bond premium	74,684
Accrued interest on bonds	100,895
Early retirement incentive payable	41,984
Accumulated leave liability	113,904
Net pension obligation	5,187,954
	(19,295,397)
Deferred inflows of resources is not a financial resource and, therefore, is not reported as a liability in governmental funds.	(17,184)
Total net position - governmental activities	<u>\$ (2,828,677)</u>

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, 2016

	Major Funds			Total Non-major Governmental Funds
	General Fund	Capital Projects Fund	Non-major Governmental Funds	
Revenues				
Property taxes	\$ 2,791,502	\$ -	\$ 1,154,232	\$ 3,945,734
Interest	1,631	395	1,758	3,784
State revenues	988,715	-	9,153	997,868
Federal revenues	167,002	-	138,657	305,659
Other	203,385	12,074	262,268	477,727
	4,152,235	12,469	1,566,068	5,730,772
Total revenues				
Expenditures				
Instruction	2,404,490	-	-	2,404,490
Supporting Services	1,675,599	-	-	1,675,599
Community Services	5,626	-	-	5,626
Food Service	-	-	228,942	228,942
Leaps and Bounds	-	-	182,210	182,210
Other	2,500	-	-	2,500
Debt Service				
Principal	85,685	-	600,000	685,685
Interest	9,094	-	599,273	608,367
Other	-	-	1,550	1,550
Capital outlay	114,076	1,219	-	115,295
	4,297,070	1,219	1,611,975	5,910,264
Total expenditures				
REVENUES OVER (UNDER) EXPENDITURES	(144,835)	11,250	(45,907)	(179,492)
Other financing sources (uses)				
Interfund transfers in	20,000	-	1,570	21,570
Interfund transfers out	(1,570)	(20,000)	-	(21,570)
Proceeds from note payable	83,083	-	-	83,083
	101,513	(20,000)	1,570	83,083
Total other financing sources (uses)				
REVENUES UNDER EXPENDITURES AND OTHER FINANCING USES	(43,322)	(8,750)	(44,337)	(96,409)
Fund balances, beginning of year	525,908	175,655	244,053	945,616
Fund balances, end of year	\$ 482,586	\$ 166,905	\$ 199,716	\$ 849,207

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, 2016

Total net change in fund balances - governmental funds		\$ (96,409)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.</p>		
	Capital outlays \$ 84,383	
	Depreciation expense <u>(538,014)</u>	(453,631)
Change in deferred outflows of resources for pension obligation.		23,611
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 \$11,041. Early retirement incentives payments were \$11,841.		800
Repayment of bond principal and capitalized leases are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		680,810
Some of the capital assets acquired this year were financed with a capital lease. The amount financed by the proceeds, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net position.		(83,083)
Amortization of bond premium.		4,742
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower amount of interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.		2,342
Increase in net pension liability.		(565,490)
Change in deferred inflows of resources for pension obligation.		<u>493,831</u>
Changes in net position of governmental activities		<u><u>\$ 7,523</u></u>

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

Onekama Consolidated Schools

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 112,194</u>
LIABILITIES	
Due to student groups	\$ 108,420
Due to other funds	<u>3,774</u>
Total liabilities	<u>\$ 112,194</u>

Onekama Consolidated Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Onekama Consolidated Schools (the "School District") is a Michigan public school district consisting of one K-12 building. The School District primarily serves the Onekama and Arcadia communities. As of June 30, 2016, the School District employed 26 professional staff and 25 non-professional staff, and had 427 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2016.

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Fund Types and Major Funds

Activities in Major Funds

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Activities in Non-major Funds

Governmental Funds

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

The 2004, 2007 and 2008 Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

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 pension obligation. See Note I for details of deferred outflows and inflows related to the pension obligation.

Fund Equity

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

Program Revenues

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

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

Spending Policy

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

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.

NOTES TO FINANCIAL STATEMENTS - Continued

Encumbrance Accounting

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

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2016, the School District was in compliance with the Act.

NOTE C - CASH AND EQUIVALENTS

At June 30, 2016, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Bank deposits	\$ 545,121
Investments	<u>460,783</u>
	<u>\$ 1,005,904</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.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2016, \$523,236 of the School District's and Agency bank balance of \$1,023,236 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, 2016 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>\$ 460,783</u>	<u>\$ 460,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market fund, or similar investment pools and limiting the average maturity. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

Credit Risk

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

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due 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 \$154.01 million and \$6 per \$1,000 of equalized commercial personal property value of \$1.82 million was levied for general operating purposes. For Debt Service, \$4.08 per \$1,000 of total equalized property value of \$282.54 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues are deferred in the governmental fund financial statements and include unearned revenue and deferred inflow of resources. Unearned revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2016 are as follows:

Due from the State of Michigan - State aid	\$ 186,663
Due from Federal grants	27,029
Due from other sources	<u>43,438</u>
	<u>\$ 257,130</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Buildings and improvements	\$ 18,064,953	\$ -	\$ -	\$ 18,064,953
Buses and vehicles	453,283	84,383	-	537,666
Furniture and equipment	<u>1,038,808</u>	<u>-</u>	<u>-</u>	<u>1,038,808</u>
Total depreciable assets	19,557,044	84,383	-	19,641,427
Less accumulated depreciation	(4,389,278)	(538,014)	-	(4,927,292)
Land	<u>401,966</u>	<u>-</u>	<u>-</u>	<u>401,966</u>
Total capital assets, net	<u>\$ 15,569,732</u>	<u>\$ (453,631)</u>	<u>\$ -</u>	<u>\$ 15,116,101</u>

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

Unallocated	<u>\$ 538,014</u>
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NOTE F - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 14,115,000	\$ -	\$ (600,000)	\$ 13,515,000	\$ 625,000
Notes payable	94,315	83,083	(27,200)	150,198	32,254
Capital lease	164,388	-	(53,610)	110,778	54,788
Unamortized bond premium	79,426	-	(4,742)	74,684	4,742
Early retirement liability	53,825	-	(11,841)	41,984	11,842
Accumulated leave liability	<u>102,863</u>	<u>11,041</u>	<u>-</u>	<u>113,904</u>	<u>-</u>
Long-term liabilities	<u>\$ 14,609,817</u>	<u>\$ 94,124</u>	<u>\$ (697,393)</u>	<u>\$ 14,006,548</u>	<u>\$ 728,626</u>

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

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2016, the School District's long-term liabilities consisted of the following:

\$3,645,000 2004 School District refunding general obligation bonds for the advance refunding of the School District's 1996 bond issue; due in annual installments of \$305,000 to \$310,000 through 2019; interest rates from 3.90% to 4.10%.	\$ 925,000
\$9,840,000 2007 School Building and Site general obligation bonds; due in annual installments of \$215,000 to \$770,000 through May 2032; interest rates from 4.00% to 5.00%; due semi-annually.	8,855,000
\$4,260,000 2008 School Building and Site general obligation bonds; due in annual installments beginning May 1, 2010 of \$100,000 to \$275,000 through May 2032; interest rates from 3.50% to 4.50%; due semi-annually.	<u>3,735,000</u>
Total general obligation bonds	13,515,000
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.	83,083
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.	67,115
Capital lease for computers with a cost of \$221,608; due in annual installments of \$57,220 through August 2017; including interest at a rate of 2.19%. Secured by the computers leased.	<u>110,778</u>
Total general obligation bonds, notes payable and capital leases	13,775,976
Unamortized bond premium	74,684
Early retirement liability	41,984
Accumulated leave liability	<u>113,904</u>
Total long-term liabilities	<u><u>\$14,006,548</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize general obligation bonds, notes payable and capital leases payable as of June 30, 2016 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 712,042	\$ 581,801
2018	738,886	553,617
2019	713,551	523,908
2020	744,219	493,233
2021	757,278	459,402
2022-2026	4,150,000	1,799,218
2027-2031	4,915,000	870,446
2032-2036	<u>1,045,000</u>	<u>45,032</u>
	<u>\$13,775,976</u>	<u>\$ 5,326,657</u>

Interest expense for the year ended June 30, 2016 was \$601,283, and interest paid was \$608,367.

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, 2016, the amount due to teachers in the program was \$41,984.

NOTE G - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Onekama Consolidated Schools. At June 30, 2016, there were no significant unbilled claims.

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

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

Due To and Due From Other Funds

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

	<u>Due From</u>	<u>Due to</u>
Major Governmental Funds		
General	\$ 3,774	\$ 45,302
Capital Projects	40,000	-
Other Governmental Funds		
Food Service	2,164	-
Leaps and Bounds	4,579	1,441
Agency Funds	<u>-</u>	<u>3,774</u>
	<u>\$ 50,517</u>	<u>\$ 50,517</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.

NOTES TO FINANCIAL STATEMENTS - Continued

The following schedule reports transfers within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Major Governmental Funds		Major Governmental Funds	
General Fund	\$ 20,000	General Fund	\$ 1,570
		Capital Projects Fund	<u>20,000</u>
Other Governmental Funds			
Food Service Fund	<u>1,570</u>		
	<u>\$ 21,570</u>		<u>\$ 21,570</u>

NOTE I - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The System's financial statements are available at www.michigan.gov/mpers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Pension Reform 2010

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

NOTES TO FINANCIAL STATEMENTS - Continued

Pension Reform 2012

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

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

Regular Retirement

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

There is no mandatory retirement age.

Funding Policy

Defined Contribution Plan

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2015 will be amortized over a 21 year period for the 2015 fiscal year.

NOTES TO FINANCIAL STATEMENTS - Continued

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2015:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.0%	17.72-18.76%

Required contributions to the pension plan from the School District were \$409,753 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$7,674, for the year ended June 30, 2016, which is equal to the pension expense recognized by the School District for the year.

Post-Employment Benefits

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

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

At June 30, 2016, the School District reported a liability of \$5,187,954 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. 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, 2015, the School District's proportion was 0.02124%, which was an increase of 0.00025% from its proportion measured as of September 30, 2014.

NOTES TO FINANCIAL STATEMENTS - Continued

For the year ended June 30, 2016, the School District recognized pension expense of \$451,255. At June 30, 2016, 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	\$ -	\$ 17,184
Changes of assumptions	127,738	-
Net difference between projected and actual earnings on pension plan investments	26,480	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,417	-
School District contributions subsequent to the measurement date	<u>316,961</u>	<u>-</u>
Total	<u>\$ 518,596</u>	<u>\$ 17,184</u>

From the above table, \$316,961 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, 2017. 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>
2016	\$ 27,320
2017	27,320
2018	20,394
2019	109,417

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.

NOTES TO FINANCIAL STATEMENTS - Continued

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

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

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: 4.7158 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

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

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

Discount Rate

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$ 6,688,602	\$ 5,187,954	\$ 3,922,846

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR"). The 2015 MPERS CAFR is available at: www.michigan.gov/mpers-cafr.

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

The School District reported \$64,626 and \$541 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions, respectively.

Required Supplemental Information - 10-Year Trend Information

Schedule of School District's Proportionate Share of Net Pension Liability	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.02124 %	0.02099 %
School District's proportionate share of net pension liability	\$ 5,187,954	\$ 4,622,464
School District's covered-employee payroll	1,777,656	1,793,122
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	291.84 %	257.79 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %	66.20 %

NOTES TO FINANCIAL STATEMENTS - Continued

Schedule of School District's Contributions

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

Change of benefit terms: There were no changes of benefit terms in 2015.

Change of assumptions: There were no changes of benefit assumptions in 2015.

NOTE J - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Onekama Education Association. The Board of Education and the Onekama Education Association had a contract through August 31, 2016. A new contract is currently being negotiated.

REQUIRED SUPPLEMENTARY INFORMATION

Onekama Consolidated Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variances - Positive (Negative)	
	<u>Original</u>	<u>Final</u>		<u>Original to Final Budget</u>	<u>Final Budget To Actual</u>
Revenues					
Local and intermediate sources	\$ 2,887,340	\$ 2,932,110	\$ 2,964,625	\$ 44,770	\$ 32,515
State revenues	930,335	974,611	988,715	44,276	14,104
Federal revenues	164,368	186,167	167,002	21,799	(19,165)
Other	<u>27,655</u>	<u>25,300</u>	<u>31,893</u>	<u>(2,355)</u>	<u>6,593</u>
Total revenues	<u>4,009,698</u>	<u>4,118,188</u>	<u>4,152,235</u>	<u>108,490</u>	<u>34,047</u>
Expenditures					
Instruction					
Basic programs	1,915,800	1,938,663	1,898,601	(22,863)	40,062
Added needs	<u>463,049</u>	<u>529,171</u>	<u>505,889</u>	<u>(66,122)</u>	<u>23,282</u>
Total instruction	<u>2,378,849</u>	<u>2,467,834</u>	<u>2,404,490</u>	<u>(88,985)</u>	<u>63,344</u>
Support services					
Pupil support	65,795	63,549	62,926	2,246	623
Instruction staff support	17,718	38,601	24,387	(20,883)	14,214
General administration	215,347	228,407	226,275	(13,060)	2,132
School administration	240,253	227,016	225,400	13,237	1,616
Business services	126,755	130,222	129,814	(3,467)	408
Operations and maintenance	551,727	604,169	585,160	(52,442)	19,009
Transportation	182,580	245,054	241,431	(62,474)	3,623
Other central support	<u>241,846</u>	<u>307,484</u>	<u>294,282</u>	<u>(65,638)</u>	<u>13,202</u>
Total support services	<u>1,642,021</u>	<u>1,844,502</u>	<u>1,789,675</u>	<u>(202,481)</u>	<u>54,827</u>
Community services	<u>8,500</u>	<u>7,000</u>	<u>5,626</u>	<u>1,500</u>	<u>1,374</u>
Total expenditures	<u>4,029,370</u>	<u>4,319,336</u>	<u>4,199,791</u>	<u>(289,966)</u>	<u>119,545</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(19,672)</u>	<u>(201,148)</u>	<u>(47,556)</u>	<u>(181,476)</u>	<u>153,592</u>
Other financing sources (uses)					
Interfund transfers in	60,000	60,000	20,000	-	(40,000)
Other financing uses	(104,770)	(101,140)	(98,849)	3,630	2,291
Proceeds from capital lease	<u>-</u>	<u>83,083</u>	<u>83,083</u>	<u>83,083</u>	<u>-</u>
Total other financing sources (uses)	<u>(44,770)</u>	<u>41,943</u>	<u>4,234</u>	<u>86,713</u>	<u>(37,709)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(64,442)</u>	<u>(159,205)</u>	<u>(43,322)</u>	<u>(94,763)</u>	<u>115,883</u>
Fund balance, beginning of year	<u>415,909</u>	<u>525,908</u>	<u>525,908</u>	<u>109,999</u>	<u>-</u>
Fund balance, end of year	<u>\$ 351,467</u>	<u>\$ 366,703</u>	<u>\$ 482,586</u>	<u>\$ 15,236</u>	<u>\$ 115,883</u>

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

Onekama Consolidated Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Funds		Debt Retirement Funds			Total
	Food Service	Leaps and Bounds	2004 Debt Retirement Fund	2007 Debt Retirement Fund	2008 Debt Retirement Fund	Non-Major Governmental
ASSETS						
Cash and cash equivalents	\$ 30,796	\$ 24,287	\$ 42,882	\$ 66,164	\$ 25,763	\$ 189,892
Due from other governments	5,030	-	-	-	-	5,030
Accounts receivables	-	7,892	-	-	-	7,892
Due from other funds	2,164	4,579	-	-	-	6,743
Prepaid expenditures	1,189	-	-	-	-	1,189
	<u>39,179</u>	<u>36,758</u>	<u>42,882</u>	<u>66,164</u>	<u>25,763</u>	<u>210,746</u>
Total assets	<u>\$ 39,179</u>	<u>\$ 36,758</u>	<u>\$ 42,882</u>	<u>\$ 66,164</u>	<u>\$ 25,763</u>	<u>\$ 210,746</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 1,867	\$ 1,672	\$ -	\$ -	\$ -	\$ 3,539
Salaries payable and related liabilities	568	2,069	-	-	-	2,637
Unearned revenue	1,832	1,581	-	-	-	3,413
Due to other funds	-	1,441	-	-	-	1,441
	<u>4,267</u>	<u>6,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,030</u>
Total liabilities	<u>4,267</u>	<u>6,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,030</u>
FUND BALANCES						
Nonspendable - prepaids	1,189	-	-	-	-	1,189
Restricted - Debt Service	-	-	42,882	66,164	25,763	134,809
Restricted - Food Service	33,723	-	-	-	-	33,723
Committed - Leaps and Bounds	-	29,995	-	-	-	29,995
	<u>34,912</u>	<u>29,995</u>	<u>42,882</u>	<u>66,164</u>	<u>25,763</u>	<u>199,716</u>
Total fund balances	<u>34,912</u>	<u>29,995</u>	<u>42,882</u>	<u>66,164</u>	<u>25,763</u>	<u>199,716</u>
Total liabilities and fund balances	<u>\$ 39,179</u>	<u>\$ 36,758</u>	<u>\$ 42,882</u>	<u>\$ 66,164</u>	<u>\$ 25,763</u>	<u>\$ 210,746</u>

Onekama Consolidated Schools

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

Year Ended June 30, 2016

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>			<u>Total Non-Major Governmental</u>
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2004 Debt Retirement Fund</u>	<u>2007 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>	
Revenues						
Property taxes	\$ -	\$ -	\$ 345,138	\$ 571,458	\$ 237,636	\$ 1,154,232
Interest	102	60	587	916	93	1,758
State revenues	9,153	-	-	-	-	9,153
Federal revenues	134,225	4,432	-	-	-	138,657
Other	<u>75,336</u>	<u>186,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262,268</u>
Total revenues	<u>218,816</u>	<u>191,424</u>	<u>345,725</u>	<u>572,374</u>	<u>237,729</u>	<u>1,566,068</u>
Expenditures						
Food Service	228,942	-	-	-	-	228,942
Leaps and Bounds	-	182,210	-	-	-	182,210
Debt Service						
Principal	-	-	315,000	190,000	95,000	600,000
Interest	-	-	48,964	392,624	157,685	599,273
Other	<u>-</u>	<u>-</u>	<u>150</u>	<u>700</u>	<u>700</u>	<u>1,550</u>
Total expenditures	<u>228,942</u>	<u>182,210</u>	<u>364,114</u>	<u>583,324</u>	<u>253,385</u>	<u>1,611,975</u>
REVENUES OVER (UNDER) EXPENDITURES	(10,126)	9,214	(18,389)	(10,950)	(15,656)	(45,907)
Other financing sources (uses)						
Interfund transfers in	<u>1,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,570</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(8,556)	9,214	(18,389)	(10,950)	(15,656)	(44,337)
Fund balances, beginning of year	<u>43,468</u>	<u>20,781</u>	<u>61,271</u>	<u>77,114</u>	<u>41,419</u>	<u>244,053</u>
Fund balances, end of year	<u>\$ 34,912</u>	<u>\$ 29,995</u>	<u>\$ 42,882</u>	<u>\$ 66,164</u>	<u>\$ 25,763</u>	<u>\$ 199,716</u>



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

To the Board of Education
Onekama Consolidated Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Onekama Consolidated Schools*** (the "School District") as of and for the year ended June 30, 2016, 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 13, 2016.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

October 13, 2016