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OSCODA AREA SCHOOLS
IOSCO AND ALCONA COUNTIES, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2016

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AUDITORS' REPORT

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September 16, 2016

Independent Auditors' Report

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Oscoda Area Schools, Iosco and Alcona Counties, Michigan, 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 index.

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.

Auditors' 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 auditors' 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 entity'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 entity'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 the Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of June 30, 2016, and the respective changes in financial position 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, budgetary comparison information, and required pension schedules 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 inquiries 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 Oscoda Area Schools' basic financial statements. The combining nonmajor fund financial statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and individual fund schedules 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 September 16, 2016, included in the Single Audit Report issued under a separate cover, on our consideration of the Oscoda Area Schools' 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 Oscoda Area Schools' internal control over financial reporting and compliance.

Stephenson, Graish & Co., P.C.

OSCODA AREA SCHOOLS

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2016

The following section presents the administration's discussion and analysis of Oscoda Area Schools' financial performance during the year ended June 30, 2016. Please read it in conjunction with the financial statements and other supplemental information included in the Audit. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District -Wide Financial Statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Fund financial statements report the School District's operations in more detail than the district-wide financial statements. Fund statements are provided for the General Fund, Capital Projects and Sinking Funds, Debt Service Funds and Food Service Fund.

District-Wide Financial Statements

The district-wide financial statements are reported using the full accrual basis of accounting. With this method, all of the District's assets and liabilities, and all of the current year revenues and expenditures, are reported regardless of when cash is received or paid. Capital assets and long-term obligations of the District are reported on the Statement of Net Position.

Summary of Net Position:

The comparative analysis for the net position at June 30, 2016 and June 30, 2015 follows:

	Net Position Summary District-Wide Activities	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current Assets	\$ 3,965,796	\$ 4,868,463
Capital Assets	13,457,302	12,288,164
Total Assets	17,423,098	17,156,627
Deferred Outflows of Resources	2,806,493	2,095,334
Liabilities		
Current Liabilities	1,344,704	1,427,998
Long-Term Liabilities	26,780,473	25,635,229
Total Liabilities	28,125,177	27,063,227

**Net Position Summary
District-Wide Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Deferred Inflows of Resources	\$ 521,886	\$ 1,627,260
Net Position		
Net Investment in Capital Assets	4,494,992	2,265,301
Restricted	134,609	1,242,652
Unrestricted (Deficit)	(13,047,073)	(12,946,479)
Total Net Position	\$ (8,417,472)	\$ (9,438,526)

Analysis of Financial Position:

During the fiscal year ended June 30, 2016, the District's net position increased by \$1,021,054.

Some of the significant factors affecting net position during the year are discussed below. A reconciliation of the change in fund balance and the change in net position can be found in the Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities in this report.

1. Change in Fund Balance

The change in fund balance for the district's governmental funds was a decrease of \$783,599. This was mainly the result of the Districts net capital projects activity of \$1,115,650, offset by the General Fund's fund balance increasing by \$308,688.

The change in the General Fund of \$308,688 is an increase of \$206,168 compared to the prior year, which is primarily due to an increase in bus repair income of approximately \$47,000 and E-Rate reimbursements in the current year of approximately \$149,000 combined with various other minor changes in other revenues and expenditure activity.

2. Capital Outlay Acquisitions

Actual capital outlay acquisitions for the fiscal year were \$1,786,730, plus \$171,607 of prior year construction in progress, funded from the Sinking Fund, 2015 Athletic Bond Capital Projects Fund, and the General Fund. These acquisitions were for the High School track resurfacing project (\$200,260), HVAC replacement (\$395,822), Richardson Elementary roof renovations (\$31,328), new security system at Richardson Elementary (\$13,945), High School roof renovations (\$58,192), pool equipment replacement and renovations (\$296,420), High School Gym Floor resurfacing (\$15,300), a new pole vault landing system (\$14,974), wireless infrastructure (\$219,578), baseball/softball field irrigation systems (\$16,150), two new floor scrubbers (\$14,927), a new Ferris mower (\$9,800), three used school buses (\$16,000), a paved path to the football field (\$5,700), fascia & shed replacement on sports complexes (\$12,100), a new youth football shed (\$5,500), new doors for the wrestling room (\$6,770), replacement of water fountains at the High School (\$8,957), the 2016 building renovation projects (\$79,384), drywalling of various common areas (\$53,315), and bathroom renovations, including architect fees (\$312,308). In the Statement of Activities, the cost of capitalized expenses is allocated over the estimated life of the asset.

3. Depreciation

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position. For the fiscal year ended June 30, 2016 the increase in depreciation was \$593,217.

4. Repayment of Principal

The repayment of debt decreases the District's long-term obligations and increases net position. The amount of debt principal repayment during the fiscal year was \$4,015,000.

Results of Operations:

For the fiscal years ended June 30, 2016 and June 30, 2015, the District-wide results of operations were:

	<u>2016</u>	<u>2015</u>
General Revenues:		
Property Taxes levied for General Purposes	\$ 6,188,268	\$ 6,014,811
Property Taxes levied for Debt Services	1,392,056	1,253,831
Property Taxes – Sinking Fund	337,250	325,011
State of Michigan Aid – Unrestricted	2,710,418	2,941,685
Gain (Loss) on Disposal of Capital Assets	(508)	6,940
Proceeds of Loss Recoveries	0	3,118
Investment Earnings and Miscellaneous	16,981	16,887
Total General Revenues	10,644,465	10,562,283
Program Revenues:		
Charges for Services	601,931	625,022
Operating Grants and Contributions	3,149,811	2,834,865
Capital Grants and Contributions	153,327	75,806
Total Program Revenues	3,905,069	3,535,693
Total Revenues	14,549,534	14,097,976
Expenses:		
Instruction	7,632,040	7,128,100
Support Services	4,420,001	4,526,045
Community Services	30,719	46,562
Athletics	366,882	326,507
Food Services	764,781	745,637
Interest on long-term debt	314,057	296,069
Bond Issuance Costs	0	104,041
Total Expenses	13,528,480	13,172,961
Increase (Decrease) in Net Position	\$ 1,021,054	\$ 925,015

1. Property Taxes

The District levies 18 mills of property taxes on non-homestead property. Commercial property is exempt for 12 of the 18 mills. This revenue is one component of the total per pupil foundation allowance set by the State of Michigan. As noted in the Results of Operations, the property taxes generated General Fund revenue was a little over \$6 million during the fiscal year ended June 30, 2016.

The District levied 1.93 mills for debt service on the 2016 Refunding Bond, 2015 Refunding Bond, and the 2015 Athletic Bond. The debt service revenue generated was \$1,131,686 and was included in debt service funds. In addition, the District levied 1.00 mills for Sinking Fund Activities. The sinking fund revenue generated was \$597,620 of which \$260,370 was dedicated for Sinking Fund debt retirement and \$337,250 was for allowable Sinking Fund capital projects activity.

2. State of Michigan Aid, Unrestricted

The State of Michigan pays a portion of the foundation allowance as unrestricted aid based upon the following variables: the per pupil foundation allowance, student enrollment and the District's non-homestead property tax levy. The non-homestead property taxes are deducted from the calculated total foundation allowance to determine the amount paid by the State of Michigan.

As noted in the Results of Operations above, Unrestricted State Aid was \$2.71 million. The portion of the foundation allowance payment that is restricted for special education was \$.34 million and is included under Program Revenue.

a. **State of Michigan State Aid Act- per pupil foundation allowance.** The stated foundation allowance was \$7,391 per pupil.

b. **Student Enrollment**-The District's student enrollment for the October count of 2015 was 1,175 students. This was a reduction of 34 pupils from the prior year fall count. For fiscal 2015-2016 the District qualified under the Michigan School Aid Act for a three year average of blended pupil counts. The annual membership average is blended at 90% of the current fiscal year fall count and 10% of the prior year winter count. The State Aid Membership used for payment calculations for 2015-16 was 1,207. This reflected the average of the blended counts for fiscal 2014-2016. The average membership of 1,207, multiplied by the foundation allowance resulted in a total foundation allowance of almost \$9 million.

Total Revenues

The total revenues of the District were just over \$14.5 million, an increase of \$.4 million from the previous year. This increase was primarily due to an increase in the District's property tax values and a 0.21 mill increase in the total debt millage for the current year (\$.30 million). In addition, it was noted that the District received an increase in their 147c state aid allocation (\$.17 million).

Program specific revenues in the form of charges for services, grants and contributions accounted for \$3.9 million or 27% of the total. As noted on the Statement of Activities of this report, general revenues including unrestricted state aid and property taxes provided 73% of the total.

General Fund Budget and Actual Results

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board of Education approve the original budget for the fiscal year prior to July 1, before student enrollment counts, approved federal grant awards and other information is known. Therefore, it is expected that there will be changes between the initial budget and subsequent amendments, as more information becomes available. The budget was amended in November, April and June. Page 41 of the Audit summarizes the comparative budget and actual results.

General Fund Revenue – Actual vs. Budget

Total General Fund revenue was \$47,108 less than budgeted. This was primarily due to receiving less Title I federal grant revenue, Medicaid Fee for Service, and Transportation Fees than what was budgeted for in 2016. A detailed comparison of local, state and federal sources for budget and actual revenues can be found in the General Fund Details of Revenue Compared to Budget statement in this report.

General Fund Expenditures vs. Budget

Total expenditures were \$161,226 less than budgeted. This was primarily due to support service salaries and employee benefit expenses being significantly less than budgeted, as well as various changes in expenditures that were less than expected. A detailed comparison of budgeted and actual expenditures can be found in the General Fund Details of Expenditures Compared to Budget statement in this report.

	Revenue	Expenditures
General Fund:		
Original Budget	\$ 11,512,125	\$ 11,672,571
Final Budget	12,067,844	11,947,074
Actual	12,020,736	11,785,848
Variance	\$ 47,108	\$ 161,226
% of Budget	0.39%	1.35%

Capital Asset and Long-Term Liability Administration

Capital Assets

At the end of the fiscal year 2016, the District had \$26.92 million invested in land and buildings, site improvements, furniture and equipment and vehicles and buses measured at historical cost. Of this amount, \$13.47 million has been depreciated. Net book value was \$13.46 million at the end of the fiscal year 2016, an increase of about \$1.17 million from the previous year. Capital asset purchases totaled \$1,786,730 and are detailed out on page 4, under Capital Outlay Acquisitions .

Capital asset disposals during the year consisted of the transfer of construction in progress, which had a carrying value of \$171,607, as the projects had been completed, two fully depreciated Chevy passenger buses, which resulted in a gain on disposal of \$12,022, a 2005 trailer, which had a total carrying value of \$22,612, which resulted in a loss on disposal of \$14,612 and the disposal of various computer equipment, which had a total carrying value of \$1,763, which resulted in a loss on disposal of \$1,763.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-Term Debt

At June 30, 2016, the District had \$9.25 million in principal outstanding on long-term bonds. In the current year, there was an advance refunding of the 2006 Refunding Bond, which net a decrease of \$50,000. That activity combined with the bond principle payments for the year resulted in a net decrease of \$1,145,000 in the Districts long-term debt obligations.

Additional information on the District's long-term debt can be found in Note 7 of this report.

Net Pension Liability

At June 30, 2016, the District's Net Pension Liability amounted to \$17,008,373. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 11 of this report.

Economic Factors and Next Year's Budgets

The General Fund Budget for 2016-17 was adopted in June 2016 based upon estimates of fall enrollment and state aid payments. Approximately 77% of total General Fund revenue for Oscoda Area Schools is from the foundation allowance. Under State law, the school district cannot assess additional property tax revenue for general operations. Accordingly, the District is heavily dependent upon the State's ability to fund the appropriations to local schools. The District will amend the budget periodically to reflect final student counts, state aid payments and other funding and expenditure changes.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Oscoda Area Schools
Business Office
3550 River Road
Oscoda, MI 48750
(989) 739-2033

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 2,833,699
Cash with Fiscal Agent (Note 3)	1,905
Receivables:	
Accounts, Net	4,184
Due from Other Governmental Units	1,031,159
Inventory:	
Supplies	15,244
Building Trades Homes	70,035
Prepaid Expenses	9,570
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 5)	223,995
Capital Assets Being Depreciated (Note 5)	<u>13,233,307</u>
 Total Assets	 <u>17,423,098</u>
<u>Deferred Outflows of Resources</u>	
Deferred Charge on Refunding	460,656
Deferred Amount on Pension Expense Related to Net Pension Liability (Note 11)	<u>2,345,837</u>
 Total Deferred Outflows of Resources	 <u>2,806,493</u>
<u>Liabilities</u>	
Accounts Payable	238,564
Due to Other Units	64,929
Interest Payable	47,461
Accrued Expenses	391,349
Salaries Payable	589,392
Unearned Revenue (Note 8)	13,009
Long-Term Liabilities	
Due within one year (Note 7)	1,148,181
Due in more than one year (Note 7)	8,623,919
Net Pension Liability (Note 11)	<u>17,008,373</u>
 Total Liabilities	 <u>28,125,177</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability (Note 11)	<u>521,886</u>
<u>Net Position</u>	
Net Investment in Capital Assets	4,494,992
Restricted For:	
Debt Retirement	64,384
Capital Projects	70,225
Unrestricted (Deficit)	<u>(13,047,073)</u>
 Total Net Position	 \$ <u><u>(8,417,472)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Isco and Alcona Counties, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 7,632,040	\$ 8,911	\$ 1,538,052	\$ 4,313	\$ (6,080,764)
Support Services	4,420,001	351,955	888,280	149,014	(3,030,752)
Community Services	30,719	35,394	800	0	5,475
Athletics	366,882	104,369	25,214	0	(237,299)
Food Services	764,781	101,302	697,465	0	33,986
Interest on Long-Term Debt	<u>314,057</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(314,057)</u>
 Total	 <u>\$ 13,528,480</u>	 <u>\$ 601,931</u>	 <u>\$ 3,149,811</u>	 <u>\$ 153,327</u>	 <u>(9,623,411)</u>
 General Revenues:					
Property Taxes, Levied for General Purposes					6,188,268
Property Taxes, Levied for Debt Purposes					1,392,056
Property Taxes, Levied for Sinking Fund Purposes					337,250
State School Aid - Unrestricted					2,710,418
Investment Earnings					9,047
Gain (Loss) on Disposal of Capital Assets					(508)
Miscellaneous					<u>7,934</u>
Total General Revenues					<u>10,644,465</u>
 Change in Net Position					 1,021,054
 Net Position - Beginning					 <u>(9,438,526)</u>
 Net Position - Ending					 <u>\$ (8,417,472)</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

		Debt Retirement Funds	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	2016 Refunding Bond	2015 Athletic Bond		
Assets					
Cash and Cash Equivalents (Note 3)	\$ 2,265,837	\$ 9,070	\$ 206,437	\$ 352,355	\$ 2,833,699
Cash with Fiscal Agent (Note 3)	1,905	0	0	0	1,905
Receivables:					
Accounts, Net	4,184	0	0	0	4,184
Due From Other Governmental Units	1,031,159	0	0	0	1,031,159
Due from Other Funds (Note 4)	136,503	0	0	0	136,503
Inventory:					
Supplies	10,088	0	0	5,156	15,244
Building Trades Homes	70,035	0	0	0	70,035
Prepaid Expenses	<u>3,645</u>	<u>0</u>	<u>5,925</u>	<u>0</u>	<u>9,570</u>
Total Assets	<u>\$ 3,523,356</u>	<u>\$ 9,070</u>	<u>\$ 212,362</u>	<u>\$ 357,511</u>	<u>\$ 4,102,299</u>
Liabilities					
Accounts Payable	\$ 123,846	\$ 0	\$ 56,093	\$ 58,625	\$ 238,564
Due to Other Units	64,929	0	0	0	64,929
Due to Other Funds (Note 4)	0	164	132,174	4,165	136,503
Accrued Expenditures	391,349	0	0	0	391,349
Salaries Payable	589,392	0	0	0	589,392
Unearned Revenue (Note 8)	<u>10,970</u>	<u>0</u>	<u>0</u>	<u>2,039</u>	<u>13,009</u>
Total Liabilities	<u>1,180,486</u>	<u>164</u>	<u>188,267</u>	<u>64,829</u>	<u>1,433,746</u>
Fund Equity					
Fund Balances:					
Nonspendable:					
Inventory	80,123	0	0	5,156	85,279
Prepaid Expenses	3,645	0	5,925	0	9,570
Restricted For:					
Debt Retirement	0	8,906	0	55,478	64,384
Capital Projects	0	0	18,170	46,130	64,300
Committed To:					
Community Education Programs	61,652	0	0	0	61,652
Assigned to:					
Food Service	0	0	0	185,918	185,918
2016/2017 Budget Expenditures	150,423	0	0	0	150,423
Employee Vacation and Sick Day					
Buyouts	349,134	0	0	0	349,134
Flooring Project	188,235	0	0	0	188,235
Unassigned	<u>1,509,658</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,509,658</u>
Total Fund Equity	<u>2,342,870</u>	<u>8,906</u>	<u>24,095</u>	<u>292,682</u>	<u>2,668,553</u>
Total Liabilities and Fund Equity	<u>\$ 3,523,356</u>	<u>\$ 9,070</u>	<u>\$ 212,362</u>	<u>\$ 357,511</u>	<u>\$ 4,102,299</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Isco and Alcona Counties, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2016

Total Governmental Fund Balances	\$	2,668,553
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:</p>		
Capital Asset Cost	\$	26,922,716
Capital Asset Accumulated Depreciation		<u>(13,465,414)</u>
		13,457,302
<p>Certain liabilities are not due and payable in the current period and are not reported in the funds:</p>		
Accrued Interest on Long-term Liabilities		(47,461)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability		2,345,837
Deferred inflows of resources resulting from net pension liability		<u>(521,886)</u>
		1,823,951
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Bonds Payable (Net of Unamortized Bond Premium)		(9,422,966)
Compensated Absences Payable		(349,134)
Deferred Charge on Refunding		460,656
Net Pension Liability		<u>(17,008,373)</u>
		<u>(26,319,817)</u>
Total Net Position - Governmental Activities	\$	<u><u>(8,417,472)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

		Debt Retirement Funds	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>General Fund</u>	<u>2016 Refunding Bond</u>	<u>2015 Athletic Bond</u>			
Revenue					
Local Sources	\$ 6,881,394	\$ 94,474	\$ 1,083	\$ 1,737,634	\$ 8,714,585
State Sources	4,316,355	0	0	29,406	4,345,761
Federal Sources	822,987	0	0	668,501	1,491,488
Total Revenue	<u>12,020,736</u>	<u>94,474</u>	<u>1,083</u>	<u>2,435,541</u>	<u>14,551,834</u>
Expenditures					
Current:					
Instruction	6,969,798	0	0	0	6,969,798
Support Services	4,109,376	0	0	0	4,109,376
Community Services	73,158	0	0	0	73,158
Food Services	0	0	0	733,385	733,385
Athletics	287,900	0	0	0	287,900
Capital Outlay	345,616	0	947,667	506,519	1,799,802
Debt Service:					
Principal Retirement	0	0	0	1,095,000	1,095,000
Interest and Fees on Long-Term Debt	0	115,212	0	173,828	289,040
Total Expenditures	<u>11,785,848</u>	<u>115,212</u>	<u>947,667</u>	<u>2,508,732</u>	<u>15,357,459</u>
Excess of Revenue Over (Under) Expenditures	<u>234,888</u>	<u>(20,738)</u>	<u>(946,584)</u>	<u>(73,191)</u>	<u>(805,625)</u>
Other Financing Sources (Uses)					
Bond Proceeds	0	2,870,000	0	0	2,870,000
Sale of Capital Assets	23,867	0	0	0	23,867
Refunding Bond Issuance Premium	0	106,463	0	0	106,463
Operating Transfers In	51,000	0	0	1,067	52,067
Payment to Refunded Bond Escrow Agent	0	(2,978,304)	0	0	(2,978,304)
Operating Transfers Out	(1,067)	0	0	(51,000)	(52,067)
Total Other Financing Sources (Uses)	<u>73,800</u>	<u>(1,841)</u>	<u>0</u>	<u>(49,933)</u>	<u>22,026</u>
Net Change in Fund Balances	308,688	(22,579)	(946,584)	(123,124)	(783,599)
Fund Balances - Beginning of Year	<u>2,034,182</u>	<u>31,485</u>	<u>970,679</u>	<u>415,806</u>	<u>3,452,152</u>
Fund Balances - End of Year	<u>\$ 2,342,870</u>	<u>\$ 8,906</u>	<u>\$ 24,095</u>	<u>\$ 292,682</u>	<u>\$ 2,668,553</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	(783,599)
Amounts reported for governmental activities in the statement of activities are different because:		
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:		
Local Revenues		(31,945)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current Year Depreciation Expense	\$ (593,217)	
Capital Outlays Reported in the Governmental Funds	1,786,730	
Gain (Loss) on Disposal of Capital Assets	<u>(24,375)</u>	1,169,138
Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.		
Bonds Payable		1,095,000
Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense. The following amounts represent the current year net changes:		
Net Pension Liability	(2,289,535)	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	751,088	
Deferred Inflows on Net Pension Liability	<u>1,105,374</u>	(433,073)
Proceeds from debt are a revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Bond Proceeds	(2,870,000)	
Payment to Refunded Bond Escrow Agent	2,978,304	
Amortization of Deferred Charge on Refunding and Bond Premiums (Net)	<u>(144,025)</u>	(35,721)
Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effect of the treatment of these activities is as follows:		
Interest	12,445	
Compensated Absences	<u>28,809</u>	<u>41,254</u>
Change in Net Position of Governmental Activities	\$	<u><u>1,021,054</u></u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2016

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ <u>53,311</u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u>53,311</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda Area Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. Oscoda Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Oscoda Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

2016 Refunding Bond Debt Retirement Fund – The 2016 Refunding Bond Debt Retirement Fund is used to account for the early payoff of principal and interest of the 2006 Refunding Bonds.

2015 Athletic Bond Capital Projects Fund – The 2015 Athletic Capital Projects Fund is used to account for the activity related to the 2015 Athletic Bonds, including associated capital projects.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net position use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2016, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by PFM Asset Management, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Receivables

Receivables generally consist of grants, state aid, and other. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at June 30, 2016 was \$0.

G. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

I. Inventory – Supplies

Inventory consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure/expense in the governmental and government-wide financial statements when used.

J. Inventory – Building Trades Home and Lots

Inventory represents the cost of property purchased for future building sites.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	5 - 8 years

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net position.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

N. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences (Continued)

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2016.

O. Net Pension Liability

For purposes of measuring the net pension 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 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.

P. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The School District reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the School District's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the School District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The School District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

Q. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balances (Continued)

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

R. Property Taxes

The School District levies its property taxes on July 1 and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

S. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2016, the foundation allowance was based on the average of the fiscal years 2014, 2015 and 2016 blended pupil membership counts.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-prequalified property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2015 - August, 2016. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

U. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2016.

W. Economic Dependency

The School District received approximately 30% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

X. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Y. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Oscoda Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Budgetary Policies and Data (Continued)

4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

Z. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 72, "Fair Value Measurement and Application" and Number 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB Statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost.

The adoption of these standards did not have a significant impact on the amounts reported in these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 2,833,699	\$ 53,311	\$ 2,887,010
Cash with Fiscal Agents	<u>1,905</u>	<u>0</u>	<u>1,905</u>
Total	<u>\$ 2,835,604</u>	<u>\$ 53,311</u>	<u>\$ 2,888,915</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 311,229
Investments in Financial Institution Pooled Funds	2,575,781
Cash with Fiscal Agents	<u>1,905</u>
Total	<u>\$ 2,888,915</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2016, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ <u>2,575,781</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School District will 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 shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2016, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserves.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2016, \$145,102 of the School District's bank balance of \$397,008 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District is not authorized to invest in investments which have this type of risk.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2016 were as follows:

	DUE FROM			
DUE TO	2015 Athletic Bond Capital Project Fund	2016 Refunding Bond Debt Retirement Fund	Non-major Governmental Funds	Total
General Fund	\$ 132,174	\$ 164	\$ 4,165	\$ 136,503

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 94,533	\$ 0	\$ 0	\$ 94,533
Construction in Progress	171,607	129,462	(171,607)	129,462
Capital Assets Not Being Depreciated	266,140	129,462	(171,607)	223,995
Capital Assets Being Depreciated				
Buildings and Improvements	17,855,168	1,275,683	(38,982)	19,091,869
Site Improvements	3,852,912	255,010	0	4,107,922
Furniture, Fixtures and Equipment	2,595,500	282,182	(428,168)	2,449,514
Vehicles and Buses	1,131,310	16,000	(97,894)	1,049,416
Subtotal	25,434,890	1,828,875	(565,044)	26,698,721
Less Accumulated Depreciation for:				
Buildings and Improvements	(7,891,772)	(336,616)	16,370	(8,212,018)
Site Improvements	(2,146,317)	(186,426)	0	(2,332,743)
Furniture, Fixtures and Equipment	(2,279,487)	(61,643)	426,405	(1,914,725)
Vehicles and Buses	(1,095,290)	(8,532)	97,894	(1,005,928)
Subtotal	(13,412,866)	(593,217)	540,669	(13,465,414)
Capital Assets Being Depreciated	12,022,024	1,235,658	(24,375)	13,233,307
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ 12,288,164	\$ 1,365,120	\$ (195,982)	\$ 13,457,302

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities

Instruction	\$ 342,918
Support Services	198,045
Community Services	1,381
Food Services	34,380
Athletics	<u>16,493</u>
	<u>\$ 593,217</u>

NOTE 6 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2016.

NOTE 7 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
2014 School Improvement Bonds:				
The bonds dated July 2, 2014 which bear interest at 1.40% to 2% are due serially each May 1 through 2018.	2014	\$ 505,000	\$ 13,700	\$ 518,700
2015 Refunding Bonds:				
The bonds dated March 5, 2015 which bear interest at 2% are due serially each May 1 through 2023.	2015	5,065,000	414,800	5,479,800
2015 School Building and Site Bonds:				
The bonds dated June 24, 2015 which bear interest at 1.25% to 2.30% are due serially each May 1 through 2020.	2015	805,000	40,505	845,505
2016 Refunding Bonds:				
The bonds dated February 4, 2016 which bear interest at 0.00 to 2.50% are due serially each May 1 through 2026.	2016	<u>2,870,000</u>	<u>604,423</u>	<u>3,474,423</u>
Total Bonds Payable		<u>\$ 9,245,000</u>	<u>\$ 1,073,428</u>	<u>\$ 10,318,428</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

The annual principal and interest requirements for long-term debt for the years after June 30, 2016 are as follows:

	Government Activities		
	Principal	Interest	Total
2017	\$ 1,120,000	\$ 206,878	\$ 1,326,878
2018	1,145,000	171,418	1,316,418
2019	910,000	149,217	1,059,217
2020	925,000	130,915	1,055,915
2021	815,000	111,800	926,800
2022 - 2026	4,330,000	303,200	4,633,200
Total	\$ 9,245,000	\$ 1,073,428	\$ 10,318,428

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate a limited amount of sick pay days based on contracts and an unlimited amount of vacation pay days. The amount of accumulated sick and vacation pay liability, recorded in the government-wide statements, for the School District was \$349,134 at June 30, 2016, of which \$7,320 was the estimated current portion.

C. Early Retirement Incentive Payable

As part of the School District's contracts they have offered teachers a voluntary resignation plan if they notify the District by January 31st of their plan to retire at the end of the current school year. In the current year two employees took advantage of this option. The remaining liability at June 30, 2016 was \$0, as all of the incentives were paid prior to yearend.

D. Defeasance of Debt

On April 26, 2005, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2015 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2016, \$5,050,000 of bonds outstanding are considered defeased.

On March 30, 2006 the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2012 and ending in 2026. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2016, \$2,695,000 of bonds outstanding are considered defeased.

On March 04, 2015 the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2016 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2016, \$5,125,000 of bonds outstanding are considered defeased.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

D. Defeasance of Debt (Continued)

On February 04, 2016 the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2016 and ending in 2026. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2016, \$2,920,000 of bonds outstanding are considered defeased.

E. Advance Refunding

On February 04, 2016, the School District issued \$2,870,000 of 2016 Unlimited Tax General Obligation Refunding Bonds that were placed in an irrevocable trust to refund \$2,920,000 of the \$4,435,000 2006 Unlimited Tax General Obligation Refunding Bonds, and to pay certain costs and expenses relating to the issuance of the 2016 Unlimited Tax General Obligation Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements.

The reacquisition price exceeded the net carrying amount of the old debt by \$59,578. This amount is being netted against the new debt and amortized over the life of the new debt issued, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments. This transaction resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$446,393.

Details of the refunding are as follows:

Total Debt Service before 2016 Unlimited Tax General Obligation Refunding Bonds	\$	4,026,184
Total Debt Service after 2016 Unlimited Tax General Obligation Refunding Bonds		<u>3,474,423</u>
Total Change in Debt Service		551,761
Less: Issuer Contribution and Excess Proceeds		<u>58,853</u>
Net Savings (Net of Cost of Issuance)	\$	<u>492,908</u>

F. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds	\$10,390,000	\$ 2,870,000	\$ (4,015,000)	\$ 9,245,000	\$ 1,120,000
Deferred Amounts for Issuance Premium	<u>133,448</u>	<u>106,463</u>	<u>(61,945)</u>	<u>177,966</u>	<u>20,861</u>
Total Bonds Payable, Net	10,523,448	2,976,463	(4,076,945)	9,422,966	1,140,861
Compensated Absences	377,943	0	(28,809) *	349,134	7,320
Early Retirement Incentive	<u>15,000</u>	<u>0</u>	<u>(15,000)</u>	<u>0</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$10,916,391</u>	<u>\$ 2,976,463</u>	<u>\$ (4,120,754)</u>	<u>\$ 9,772,100</u>	<u>\$ 1,148,181</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

*Represents net of additions and retirements for the year.

The payment dates of compensated absences payable are undeterminable.

The interest expense on long-term obligations for the year was \$314,057.

Compensated absences for the governmental funds are generally liquidated by the General and Food Service Funds.

NOTE 8 - UNEARNED REVENUE

Governmental funds and Governmental Activities defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

General Fund:		
Early Literacy	\$	10,970
Food Service Fund:		
Meal Cards		<u>2,039</u>
Total	\$	<u><u>13,009</u></u>

NOTE 9 - LEASE

The School District had seven lease agreements during the year. For those lease agreements that did not expire on or prior to year end, they can be terminated at any time, given 90 days written notice.

The annual lease amounts and agreement expiration dates are as follows:

Ray's Gym	\$	9,150	March 31, 2017
Eastern Tent		750	August 31, 2015
Andrea Mosley		3,620	May 11, 2018
Northeast Michigan Community Service Agency		34,000	June 30, 2016
Iosco Regional Education Service Agency		25,000	June 30, 2016
AuSable Valley Community Mental Health #1		13,500	September 30, 2017
AuSable Valley Community Mental Health #2		<u>13,500</u>	September 30, 2017
	\$	<u><u>99,520</u></u>	

Total rental income received in the current year was \$99,520.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 - OPERATING TRANSFERS

During the year ended June 30, 2016, the following transfers were made:

TRANSFER TO	TRANSFER FROM		
	General Fund	Non-major Governmental Funds	Total
General Fund	\$ 0	\$ 51,000	\$ 51,000
Non-major Governmental Funds	1,067	0	1,067
	\$ 1,067	\$ 51,000	\$ 52,067

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11 - DEFINED BENEFIT PLAN

Organization

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

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 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member 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.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

Contributions and Funding 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 the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates		
Benefit Structure	Member	Employer
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 \$1,343,348 for the year ended September 30, 2015.

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

At June 30, 2016, the School District reported a liability of \$17,008,373 for its proportionate share of the 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 2014. The School District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the School District's proportionate share percent was 0.06963%, which was an increase of 0.00281% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,578,670. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 56,337
Change of assumptions	418,781	0
Net difference between projected and actual earnings on pension plan investments	86,814	0
Changes in proportion and differences between School District contributions and proportionate share of contributions	524,380	64
School District contributions subsequent to the measurement date	1,315,862	0
Total	\$ 2,345,837	\$ 56,401

In addition to the deferred inflows of resources noted above, the District also has \$465,485 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$850,377 reported as deferred outflows of resources related to pensions resulting from employer 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 in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year

Year Ended June 30	Amount
2016	\$ 1,039,205
2017	188,828
2018	166,122
2019	429,796
	\$ 1,823,951

Actuarial Valuations and 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.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

Actuarial Valuations and Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- λ Valuation Date: September 30, 2014
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 3.5%
- λ Investment Rate of Returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plans Plan (Hybrid): 7.0%
- λ Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- λ 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 periods 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
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

Long-Term Expected Rate of Return On Plan Assets

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:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.9 %
% Alternative Investment Pools	18.0	9.2
International Equity	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
	<u>100.0%</u>	

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

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

As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus 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%
\$ 21,928,114	\$ 17,008,373	\$ 12,860,774

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

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 CAFR. See the 2015 MPERS CAFR:

www.michigan.gov/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf

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

At June 30, 2016, there were reported payables to MPERS of \$274,426 which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

NOTE 12 - DEFERRED COMPENSATION PLANS

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Oscoda Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$13,977 for the year ended June 30, 2016.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$73,280 for the year ended June 30, 2016. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 13 - DEFINED CONTRIBUTION PLAN

Plan Description

The School District's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Prior to February 2013, the School District employees who were part of the PPP were required to contribute 2% of their earnings for the plan year, unless they elected out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 13 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Funding Policy (Continued)

Beginning February 2013 and after, the rates vary depending on which plan the active member is a participant of. The School District employees that are part of the PPP with Premium Subsidy or a Personal Healthcare Fund (PHF) are not required to contribute. If they do contribute they can contribute in full percent increments and the employer will match 50% of the contribution up to 1%. For the PPP with PHF the employee and employer contribution is 2% for the PHF.

The following are the DC pension and PHF contribution requirements for each applicable plan option:

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2016, the School District contributed \$30,364 on behalf of eligible employees. Employee contributions amounted to \$38,834 for eligible employees.

NOTE 14 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$2,190 as of June 30, 2016.

NOTE 15 - BONDED CONSTRUCTION FUND AND SINKING FUND

The 2015 Athletic Bond Capital Projects Fund and the Sinking Fund Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2015 Athletic Bond Debt Retirement and Capital Projects Funds. The project for which the 2015 School Building and Site Bonds were issued was considered complete on June 30, 2016 and the cumulative expenditures recognized for the construction period were \$971,988.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 15 - BONDED CONSTRUCTION FUND AND SINKING FUND (CONTINUED)

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the Sinking Fund Capital Projects Fund. The project for which the 2014 School Improvement Bonds were issued was considered complete on August 4, 2015 and the cumulated expenditures recognized for the construction period were \$1,426,204.

The Sinking Fund also records capital project activities funded with a Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 16 - 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 and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

NOTE 17 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 18 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2016, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

The School District is currently a defendant in a lawsuit. The outcome of this lawsuit is not presently determinable and is being handled by the district's insurance company (SET-SEG). All costs will be run through the insurance with no true cost to the District, and will have no effect on the financial condition of the School District.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 19 - COMMITMENTS

The School District has contractual commitments in the amount of \$629,893 outstanding at June 30, 2016 for the construction related to the various Sinking Fund Renovation Projects.

Construction contracts

As of June 30, 2016, the School District had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at June 30, 2016</u>	<u>Contract Payable at June 30, 2016</u>
Wigen Tincknell Meyer & Associates Inc. - Architect Contract	\$ 26,600	\$ 3,325	\$ 2,660
B & B General Contracting, Inc. - Various Renovations	502,055	454,507	47,548
MIS Corporation - Flooring Projects	<u>172,061</u>	<u>172,061</u>	<u>0</u>
	<u>\$ 700,716</u>	<u>\$ 629,893</u>	<u>\$ 50,208</u>

On June 13, 2016, the School District committed to borrowing a \$200,000 Capital Improvement Tax Anticipation Note (General Obligation - Limited Tax) through Huron Community Bank, bearing an interest rate of 1.05% dated July 1, 2016 and maturing on October 1, 2017.

NOTE 20 - IDLE IMPAIRED CAPITAL ASSETS

Recurring fair value measurements as of June 30, 2016:

Cedar Lake Elementary School building was closed down as of June 30, 2012, and is currently not being used for instruction. However, there is no impairment loss in the current year, as the carrying value of the Cedar Lake Elementary School assets at June 30, 2016 is \$1,834,981, which is lower than the estimated fair value of \$3,276,723. This estimate was valued using the deflated depreciated replacement cost approach, based on the insurance assessed property value (Level 3).

Glennie Elementary School was closed on September 1, 2009 and the building is no longer being used for instruction. However, there is no impairment loss in the current year, as the carrying value of the Glennie Elementary School assets at June 30, 2016 is \$968,879, which is lower than the estimated fair value of \$1,320,415. This estimate was valued using the deflated depreciated replacement cost approach, based on the insurance assessed property value (Level 3).

REQUIRED SUPPLEMENTARY INFORMATION

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts were determined as of 9/30 of the fiscal year)

	2016	2015
School District's proportion of net pension liability (%)	0.06963%	0.06682%
School District's proportionate share of net pension liability	\$ 17,008,373	\$ 14,718,838
School District's covered-employee payroll	\$ 5,827,964	\$ 5,776,637
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	291.84%	254.80%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

Notes to the Schedule of the School District's Proportionate Share of the Net Pension Liability:

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

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

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
 MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
 (Amounts determined as of 6/30 of each year)

	2016	2015
Statutorily required contributions	\$ 1,543,203	\$ 1,320,083
Contributions in relation to statutorily required contributions*	1,543,203	1,320,083
Contribution deficiency (excess)	\$ 0	\$ 0
 School District's covered-employee payroll	\$ 5,794,223	\$ 5,908,620
 Contributions as a percentage of covered-employee payroll	26.63%	22.34%

*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

Notes to the Schedule of the School District's Contributions:

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

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

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 6,539,531	\$ 6,914,678	\$ 6,881,394	\$ (33,284)
State Sources	4,186,364	4,310,350	4,316,355	6,005
Federal Sources	<u>786,230</u>	<u>842,816</u>	<u>822,987</u>	<u>(19,829)</u>
Total Revenue	<u>11,512,125</u>	<u>12,067,844</u>	<u>12,020,736</u>	<u>(47,108)</u>
<u>Expenditures</u>				
Current:				
Instruction	7,039,594	6,986,258	6,969,798	16,460
Support Services	4,205,257	4,222,224	4,109,376	112,848
Community Services	92,227	76,613	73,158	3,455
Athletics	249,333	291,876	287,900	3,976
Capital Outlay	<u>86,160</u>	<u>370,103</u>	<u>345,616</u>	<u>24,487</u>
Total Expenditures	<u>11,672,571</u>	<u>11,947,074</u>	<u>11,785,848</u>	<u>161,226</u>
Excess of Revenue Over (Under) Expenditures	<u>(160,446)</u>	<u>120,770</u>	<u>234,888</u>	<u>114,118</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	18,865	23,867	5,002
Operating Transfers In	42,400	51,000	51,000	0
Operating Transfers Out	<u>(900)</u>	<u>(2,400)</u>	<u>(1,067)</u>	<u>1,333</u>
Total Other Financing Sources (Uses)	<u>41,500</u>	<u>67,465</u>	<u>73,800</u>	<u>6,335</u>
Net Change in Fund Balances	(118,946)	188,235	308,688	120,453
Fund Balances - Beginning of Year	<u>2,034,182</u>	<u>2,034,182</u>	<u>2,034,182</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,915,236</u>	<u>\$ 2,222,417</u>	<u>\$ 2,342,870</u>	<u>\$ 120,453</u>

OTHER INFORMATION

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2016

	Special Revenue Fund	Debt Retirement Funds			Capital Projects Fund	Total Other Governmental Funds
	Food Service Fund	Sinking Fund Bond	2015 Refunding Bond	2015 Athletic Bond Debt Service Fund	Sinking Fund	
<u>Assets</u>						
Cash and Cash Equivalents	\$ 189,456	\$ 5,119	\$ 28,861	\$ 23,355	\$ 105,564	\$ 352,355
Inventory:						
Supplies	5,156	0	0	0	0	5,156
Total Assets	\$ 194,612	\$ 5,119	\$ 28,861	\$ 23,355	\$ 105,564	\$ 357,511
<u>Liabilities</u>						
Accounts Payable	\$ 796	\$ 0	\$ 0	\$ 0	\$ 57,829	\$ 58,625
Due to Other Funds	703	41	1,416	400	1,605	4,165
Unearned Revenue	2,039	0	0	0	0	2,039
Total Liabilities	3,538	41	1,416	400	59,434	64,829
<u>Fund Equity</u>						
Fund Balances:						
Nonspendable:						
Inventory	5,156	0	0	0	0	5,156
Restricted For:						
Debt Retirement	0	5,078	27,445	22,955	0	55,478
Capital Projects	0	0	0	0	46,130	46,130
Assigned to:						
Food Service	185,918	0	0	0	0	185,918
Total Fund Equity	191,074	5,078	27,445	22,955	46,130	292,682
Total Liabilities and Fund Equity	\$ 194,612	\$ 5,119	\$ 28,861	\$ 23,355	\$ 105,564	\$ 357,511

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	<u>Special Revenue Fund</u>	<u>Debt Retirement Funds</u>			<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Sinking Fund Bond</u>	<u>2015 Refunding Bond</u>	<u>2015 Athletic Bond Debt Service Fund</u>	<u>Sinking Fund</u>	<u>Funds</u>
<u>Revenue</u>						
Local Sources	\$ 101,609	\$ 260,446	\$ 807,724	\$ 230,402	\$ 337,453	\$ 1,737,634
State Sources	28,964	0	442	0	0	29,406
Federal Sources	668,501	0	0	0	0	668,501
Total Revenue	<u>799,074</u>	<u>260,446</u>	<u>808,166</u>	<u>230,402</u>	<u>337,453</u>	<u>2,435,541</u>
<u>Expenditures</u>						
Current:						
Food Services	733,385	0	0	0	0	733,385
Capital Outlay	0	0	0	0	506,519	506,519
Debt Service:						
Principal Retirement	0	245,000	660,000	190,000	0	1,095,000
Interest and Fees on Long-Term Debt	0	11,146	145,232	17,450	0	173,828
Total Expenditures	<u>733,385</u>	<u>256,146</u>	<u>805,232</u>	<u>207,450</u>	<u>506,519</u>	<u>2,508,732</u>
Excess of Revenue Over (Under) Expenditures	<u>65,689</u>	<u>4,300</u>	<u>2,934</u>	<u>22,952</u>	<u>(169,066)</u>	<u>(73,191)</u>
<u>Other Financing Sources (Uses)</u>						
Operating Transfers In	1,067	0	0	0	0	1,067
Operating Transfers Out	(51,000)	0	0	0	0	(51,000)
Total Other Financing Sources (Uses)	<u>(49,933)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(49,933)</u>
Net Change in Fund Balances	15,756	4,300	2,934	22,952	(169,066)	(123,124)
Fund Balances - Beginning of Year	<u>175,318</u>	<u>778</u>	<u>24,511</u>	<u>3</u>	<u>215,196</u>	<u>415,806</u>
Fund Balances - End of Year	<u>\$ 191,074</u>	<u>\$ 5,078</u>	<u>\$ 27,445</u>	<u>\$ 22,955</u>	<u>\$ 46,130</u>	<u>\$ 292,682</u>

INDIVIDUAL FUND SCHEDULES

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	2016 Amended Budget	2016 Actual	2015 Actual
	<u> </u>	<u> </u>	<u> </u>
<u>Local Sources</u>			
Current Property Taxes	\$ 6,154,279	\$ 6,188,268	\$ 6,040,411
Tuition	8,500	8,435	12,425
Transportation Fees	62,948	47,423	63,939
Gate Receipts	57,747	57,747	61,513
Interest	39,999	6,022	2,574
Rents	100,685	100,440	108,240
Athletics Donations	25,212	25,214	13,370
Donations	4,313	4,313	75,806
Medicaid Fee for Service	56,000	37,076	60,700
Miscellaneous Local Sources	404,995	406,456	215,733
	<u>6,914,678</u>	<u>6,881,394</u>	<u>6,654,711</u>
<u>State Sources</u>			
State Aid Foundation Allowance	2,650,961	2,652,186	2,769,607
Performance Based Funding	0	0	49,419
Best Practices Incentives	0	0	67,595
Isolated Districts	53,300	53,292	55,064
At Risk	467,124	466,252	440,493
Early Literacy	12,385	5,035	0
Special Education Grant	339,852	339,852	289,978
Technology Infrastructure	12,060	23,330	14,483
MPSERS Cost Offset	82,985	82,985	79,896
MPSERS UAAL Rate Stabilization	670,245	670,245	504,895
Miscellaneous State Sources	21,438	23,178	1,230
	<u>4,310,350</u>	<u>4,316,355</u>	<u>4,272,660</u>
<u>Federal Sources</u>			
ECIA Title I	566,507	550,934	506,667
ECIA Title II- Improving Teacher Quality	177,270	170,326	177,659
Rural and Low-Income Schools	20,508	20,508	46,036
Medicaid Outreach	1,300	3,104	0
Schools and Roads Grant Funds	74,231	74,231	75,677
Other Federal Revenues	3,000	3,884	2,993
	<u>842,816</u>	<u>822,987</u>	<u>809,032</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	18,865	23,867	11,961
Proceeds of Loss Recoveries	0	0	3,118
Operating Transfers In	51,000	51,000	39,720
	<u>69,865</u>	<u>74,867</u>	<u>54,799</u>
Total Revenue and Other Financing Sources	<u>\$ 12,137,709</u>	<u>\$ 12,095,603</u>	<u>\$ 11,791,202</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,503,550	\$ 1,493,302	\$ 1,585,064
Employee Benefits	1,042,824	1,038,951	1,039,004
Purchased Services	80,500	74,816	71,671
Supplies, Materials and Other	<u>46,360</u>	<u>45,187</u>	<u>31,343</u>
	<u>2,673,234</u>	<u>2,652,256</u>	<u>2,727,082</u>
Junior High School			
Salaries	363,165	359,195	436,704
Employee Benefits	232,088	230,334	283,090
Purchased Services	8,350	7,977	7,652
Supplies, Materials and Other	<u>17,470</u>	<u>16,125</u>	<u>6,574</u>
	<u>621,073</u>	<u>613,631</u>	<u>734,020</u>
High School			
Salaries	825,750	822,931	817,234
Employee Benefits	592,127	591,825	538,103
Purchased Services	90,510	84,227	103,268
Supplies, Materials and Other	<u>89,400</u>	<u>75,428</u>	<u>22,883</u>
	<u>1,597,787</u>	<u>1,574,411</u>	<u>1,481,488</u>
Preschool			
Salaries	6,200	6,047	18,146
Employee Benefits	2,728	2,740	7,831
Purchased Services	<u>565</u>	<u>565</u>	<u>0</u>
	<u>9,493</u>	<u>9,352</u>	<u>25,977</u>
Summer School			
Salaries	31,577	28,177	12,400
Employee Benefits	13,231	11,597	4,625
Supplies, Materials and Other	<u>2,550</u>	<u>1,444</u>	<u>3,670</u>
	<u>47,358</u>	<u>41,218</u>	<u>20,695</u>
Total Basic Programs	<u>4,948,945</u>	<u>4,890,868</u>	<u>4,989,262</u>
Added Needs:			
Special Education			
Salaries	525,900	526,019	513,850
Employee Benefits	352,164	349,691	336,355
Purchased Services	10,800	52,527	13,166
Supplies, Materials and Other	<u>300</u>	<u>0</u>	<u>113</u>
	<u>889,164</u>	<u>928,237</u>	<u>863,484</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Compensatory Education			
Salaries	\$ 588,855	\$ 592,412	\$ 485,831
Employee Benefits	367,054	366,515	279,637
Purchased Services	<u>3,200</u>	<u>2,726</u>	<u>3,210</u>
	<u>959,109</u>	<u>961,653</u>	<u>768,678</u>
Career and Technical/Vocational Education			
Purchased Services	<u>189,040</u>	<u>189,040</u>	<u>219,620</u>
Total Added Needs	<u>2,037,313</u>	<u>2,078,930</u>	<u>1,851,782</u>
Total Instruction	<u>6,986,258</u>	<u>6,969,798</u>	<u>6,841,044</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	70,264	70,263	105,292
Employee Benefits	44,085	43,592	77,341
Purchased Services	<u>3,247</u>	<u>3,145</u>	<u>595</u>
	<u>117,596</u>	<u>117,000</u>	<u>183,228</u>
Health Services			
Purchased Services	<u>10,000</u>	<u>17,015</u>	<u>9,901</u>
Psychological Services			
Purchased Services	<u>7,000</u>	<u>7,769</u>	<u>19,673</u>
Speech			
Salaries	60,550	60,541	60,531
Employee Benefits	41,775	41,320	42,279
Purchased Services	20,100	14,431	41,254
Supplies, Materials and Other	<u>300</u>	<u>0</u>	<u>0</u>
	<u>122,725</u>	<u>116,292</u>	<u>144,064</u>
Social Work			
Salaries	5,000	4,278	18,335
Employee Benefits	2,240	460	12,739
Purchased Services	52,000	52,000	26,000
Supplies, Materials and Other	<u>212</u>	<u>212</u>	<u>0</u>
	<u>59,452</u>	<u>56,950</u>	<u>57,074</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Support Services</u> (Continued)			
Pupil Services: (Continued)			
Pupil Support Services			
Salaries	\$ 39,950	\$ 31,965	\$ 41,806
Employee Benefits	<u>24,510</u>	<u>19,062</u>	<u>24,081</u>
	<u>64,460</u>	<u>51,027</u>	<u>65,887</u>
 Total Pupil Services	 <u>381,233</u>	 <u>366,053</u>	 <u>479,827</u>
 Instructional Staff:			
Instructional Improvement			
Salaries	85,045	76,793	84,483
Employee Benefits	41,512	37,454	37,861
Purchased Services	65,901	54,864	64,658
Supplies, Materials and Other	<u>1,795</u>	<u>280</u>	<u>558</u>
	<u>194,253</u>	<u>169,391</u>	<u>187,560</u>
 Library Services			
Salaries	500	0	810
Employee Benefits	<u>222</u>	<u>0</u>	<u>300</u>
	<u>722</u>	<u>0</u>	<u>1,110</u>
 Computer Assisted Instruction			
Salaries	31,210	30,142	22,949
Employee Benefits	15,280	14,795	10,153
Purchased Services	40,852	32,859	29,087
Supplies, Materials and Other	<u>50,588</u>	<u>54,462</u>	<u>294,238</u>
	<u>137,930</u>	<u>132,258</u>	<u>356,427</u>
 Academic Student Assessment			
Salaries	19,259	18,657	14,669
Employee Benefits	6,369	5,816	4,198
Purchased Services	15,663	14,512	22,964
Supplies, Materials and Other	<u>750</u>	<u>503</u>	<u>493</u>
	<u>42,041</u>	<u>39,488</u>	<u>42,324</u>
 Total Instructional Staff	 <u>374,946</u>	 <u>341,137</u>	 <u>587,421</u>
 General Administration:			
Board of Education			
Salaries	2,700	1,830	1,980
Employee Benefits	210	140	152
Purchased Services	59,185	55,762	55,395
Supplies, Materials and Other	<u>5,200</u>	<u>4,842</u>	<u>4,794</u>
	<u>67,295</u>	<u>62,574</u>	<u>62,321</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Support Services</u> (Continued)			
General Administration: (Continued)			
Executive Administration			
Salaries	\$ 156,805	\$ 156,566	\$ 155,641
Employee Benefits	107,879	105,801	103,653
Purchased Services	17,250	15,100	17,650
Supplies, Materials and Other	<u>5,200</u>	<u>4,490</u>	<u>3,120</u>
	<u>287,134</u>	<u>281,957</u>	<u>280,064</u>
 Total General Administration	 <u>354,429</u>	 <u>344,531</u>	 <u>342,385</u>
 School Administration:			
Office of the Principal			
Salaries	431,107	422,969	452,806
Employee Benefits	296,932	291,980	300,027
Purchased Services	14,205	12,263	14,380
Supplies, Materials and Other	<u>4,000</u>	<u>2,379</u>	<u>3,455</u>
	<u>746,244</u>	<u>729,591</u>	<u>770,668</u>
 Director of Instruction			
Salaries	66,406	59,858	60,998
Employee Benefits	36,110	34,648	33,557
Purchased Services	0	0	75
Supplies, Materials and Other	<u>1,075</u>	<u>102</u>	<u>84</u>
	<u>103,591</u>	<u>94,608</u>	<u>94,714</u>
 Other Administration			
Supplies, Materials and Other	<u>2,000</u>	<u>1,845</u>	<u>1,351</u>
 Total School Administration	 <u>851,835</u>	 <u>826,044</u>	 <u>866,733</u>
 Business:			
Business Services			
Purchased Services	9,084	9,084	10,759
Supplies, Materials and Other	<u>32,250</u>	<u>31,664</u>	<u>33,197</u>
	<u>41,334</u>	<u>40,748</u>	<u>43,956</u>
 Fiscal Services			
Salaries	96,650	96,633	93,843
Employee Benefits	74,289	73,122	69,075
Purchased Services	500	51	4,281
Supplies, Materials and Other	<u>4,109</u>	<u>4,054</u>	<u>3,062</u>
	<u>175,548</u>	<u>173,860</u>	<u>170,261</u>
 Total Business	 <u>216,882</u>	 <u>214,608</u>	 <u>214,217</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016</u> <u>Amended</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
<u>Support Services (Continued)</u>			
Operations and Maintenance:			
Salaries	\$ 270,502	\$ 265,565	\$ 214,856
Employee Benefits	179,298	176,446	121,906
Purchased Services	178,284	184,218	186,846
Supplies, Materials and Other	<u>405,200</u>	<u>398,229</u>	<u>411,526</u>
	<u>1,033,284</u>	<u>1,024,458</u>	<u>935,134</u>
Transportation:			
Salaries	354,132	344,770	314,919
Employee Benefits	187,813	185,072	166,037
Purchased Services	97,917	95,259	98,090
Supplies, Materials and Other	<u>203,700</u>	<u>207,044</u>	<u>202,138</u>
	<u>843,562</u>	<u>832,145</u>	<u>781,184</u>
Central Services:			
Staff and Personnel Services			
Salaries	10,075	10,068	9,833
Employee Benefits	6,973	6,814	6,650
Purchased Services	12,575	10,297	8,773
Supplies, Materials and Other	<u>1,180</u>	<u>1,080</u>	<u>674</u>
	<u>30,803</u>	<u>28,259</u>	<u>25,930</u>
Technology			
Salaries	58,726	58,104	55,654
Employee Benefits	29,289	29,411	26,631
Purchased Services	18,150	16,932	19,347
Supplies, Materials and Other	<u>6,200</u>	<u>4,938</u>	<u>638</u>
	<u>112,365</u>	<u>109,385</u>	<u>102,270</u>
Pupil Accounting:			
Salaries	10,075	10,068	9,833
Employee Benefits	5,562	5,440	5,902
Purchased Services	<u>7,248</u>	<u>7,248</u>	<u>7,428</u>
	<u>22,885</u>	<u>22,756</u>	<u>23,163</u>
Total Central Services	<u>166,053</u>	<u>160,400</u>	<u>151,363</u>
Total Support Services	<u>4,222,224</u>	<u>4,109,376</u>	<u>4,358,264</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Community Services</u>			
Community Recreation			
Salaries	\$ 0	\$ 0	\$ 587
Other Purchased Services	6,340	5,845	12,495
Other Supplies	43,420	45,229	29,066
Other Expenses	<u>10,512</u>	<u>9,415</u>	<u>11,398</u>
	<u>60,272</u>	<u>60,489</u>	<u>53,546</u>
 Community Activities:			
Salaries	6,596	5,379	9,118
Employee Benefits	2,950	2,373	3,830
Purchased Services	5,538	4,522	5,708
Supplies, Materials and Other	<u>1,257</u>	<u>395</u>	<u>4,455</u>
	<u>16,341</u>	<u>12,669</u>	<u>23,111</u>
 Total Community Services	 <u>76,613</u>	 <u>73,158</u>	 <u>76,657</u>
 <u>Athletics</u>			
Salaries	143,509	142,397	138,361
Employee Benefits	66,791	65,221	64,796
Equipment and Supplies	42,881	41,790	27,705
Purchased Services	30,825	30,622	29,621
Other Expenditures	<u>7,870</u>	<u>7,870</u>	<u>2,510</u>
 Total Athletics	 <u>291,876</u>	 <u>287,900</u>	 <u>262,993</u>
 <u>Capital Outlay</u>			
Support Services	355,028	330,641	125,527
Community Services	0	0	23,408
Athletics	<u>15,075</u>	<u>14,975</u>	<u>0</u>
 Total Capital Outlay	 <u>370,103</u>	 <u>345,616</u>	 <u>148,935</u>
 <u>Operating Transfers Out</u>			
Food Service Fund	<u>2,400</u>	<u>1,067</u>	<u>789</u>
 Total Expenditures and Transfers	 <u>\$ 11,949,474</u>	 <u>\$ 11,786,915</u>	 <u>\$ 11,688,682</u>



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OSCODA AREA SCHOOLS
IOSCO AND ALCONA COUNTIES, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2016

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September 16, 2016

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

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

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 Oscoda Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Oscoda Area Schools' basic financial statements and have issued our report thereon dated September 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oscoda Area Schools' 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 Oscoda Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Oscoda Area Schools' 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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oscoda Area Schools' 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*.

Board of Education
Oscoda Area Schools
September 16, 2016
Page Two

Oscoda Area Schools' Response to Findings

Oscoda Area Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Oscoda Area Schools' 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.

Stephenson, Graub & Co., P.C.



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September 16, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

Report on Compliance for Each Major Federal Program

We have audited Oscoda Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Oscoda Area Schools' major federal programs for the year ended June 30, 2016. Oscoda Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Oscoda Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oscoda Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Oscoda Area Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Oscoda Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Oscoda Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Oscoda Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oscoda Area Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Oscoda Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Oscoda Area Schools' basic financial statements. We issued our report thereon dated September 16, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stephenson, Grain & Co., P.C.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

Findings - Financial Statements Audit

2015-001

Segregation of Duties

Completeness of the activity fund and athletic deposits could not be ensured as a result of a lack in segregation of duties.

Progress has been made with respect to the athletic deposits, however completeness of the activity fund deposits still cannot be ensured, so this is still considered to be a Significant Deficiency in the current year. See the current year Segregation of Duties finding 2016-001.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2015.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Oscoda Area Schools.
2. One significant deficiency in internal control relating to the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of Oscoda Area Schools, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Oscoda Area Schools expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for Oscoda Area Schools are reported in this schedule.
7. The programs tested as major programs included: Title I, CFDA #84.010
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Oscoda Area Schools was determined to be a low-risk auditee.

Findings - Financial Statement Audit

2016-001

Segregation of Duties

Condition and Criteria: Proper internal control mandates the Segregation of Duties. Proper segregation of duties requires a separation in the handling of cash and the verification of deposits. Therefore, the individual verifying the deposits should be able to ensure the completeness of the deposits based on accurately completed support from the individual handling the cash. Currently, the District has a lack in segregation of duties in the area of activity fund receipts.

Effect: Completeness of the activity fund deposits cannot be ensured, allowing for the potential misappropriation of District assets.

Cause: Although the District does currently have proper procedures in place for activity fund events, requiring third party verification support, the procedures are not being applied and verified consistently.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Findings - Financial Statement Audit (Continued)

2016-001 Segregation of Duties (Continued)

Context: Oscoda Area Schools currently has strong procedures in place for activity fund events; however, those same procedures are not being followed or verified consistently.

Auditors' Recommendation: We recommend that management remind the employees, in charge of the various events, of the District's policies and procedures and require that they begin following those procedures, as designed.

Views of Responsible Officials and Planned Corrective Actions: The Superintendent and Director of Finance will begin working with the Building Principals, immediately, to ensure that all employees are properly informed of the District's policies and procedures, and will provide follow through procedures to ensure that they are consistently applied and followed.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2016.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2016

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>U.S. Department of Agriculture</u>							
Passed through Michigan Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
Food Distribution							
55030 Entitlement Commodities	10.555	\$ 44,035	\$ 0	\$ 0	\$ 44,035	\$ 44,035	\$ 0
Cash Assistance:							
National School Breakfast Program							
151970 2014-2015	10.553	188,782	170,263	0	18,519	18,519	0
161970 2015-2016		190,543	0	0	190,543	178,055	12,488
		<u>379,325</u>	<u>170,263</u>	<u>0</u>	<u>209,062</u>	<u>196,574</u>	<u>12,488</u>
National School Lunch Program							
Section 11 - Free and Reduced							
151960 2014-2015	10.555	394,090	355,485	0	38,605	38,605	0
161960 2015-2016		369,024	0	0	369,024	344,700	24,324
		<u>763,114</u>	<u>355,485</u>	<u>0</u>	<u>407,629</u>	<u>383,305</u>	<u>24,324</u>
Summer Food Service Program of Children							
150900 2014-2015	10.559	7,052	0	0	7,052	7,052	0
151900 2014-2015		723	0	0	723	723	0
		<u>7,775</u>	<u>0</u>	<u>0</u>	<u>7,775</u>	<u>7,775</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>		<u>1,150,214</u>	<u>525,748</u>	<u>0</u>	<u>624,466</u>	<u>587,654</u>	<u>36,812</u>
Total Child Nutrition Cluster		<u>1,194,249</u>	<u>525,748</u>	<u>0</u>	<u>668,501</u>	<u>631,689</u>	<u>36,812</u>
Passed through Alcona County:							
Schools and Roads Grant Funds	10.665	16,466	0	1,158	16,466	17,624	0
Passed through Iosco County:							
Schools and Roads Grant Funds		57,765	0	0	57,765	57,765	0
		<u>74,231</u>	<u>0</u>	<u>1,158</u>	<u>74,231</u>	<u>75,389</u>	<u>0</u>
Total U.S. Department of Agriculture		<u>1,268,480</u>	<u>525,748</u>	<u>1,158</u>	<u>742,732</u>	<u>707,078</u>	<u>36,812</u>

The accompanying notes are an integral part of this schedule.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education:							
Title I:							
Title I - Grants to Local Educational Agencies							
Part A Imp Basic Pro 151530 2014-2015	84.010	\$ 555,106	\$ 480,314	\$ 136,097	\$ 45,959	\$ 182,056	\$ 0
Part A Imp Basic Pro 161530 2015-2016		<u>533,359</u>	<u>0</u>	<u>0</u>	<u>504,975</u>	<u>383,448</u>	<u>121,527</u>
		<u>1,088,465</u>	<u>480,314</u>	<u>136,097</u>	<u>550,934</u>	<u>565,504</u>	<u>121,527</u>
Passed through Michigan Department of Education:							
Title VI, Part B, Subpart 2							
Rural and Low-Income Schools 150660 2014-2015	84.358B	23,394	23,394	23,394	0	23,394	0
Rural and Low-Income Schools 160660 2015-2016		<u>20,508</u>	<u>0</u>	<u>0</u>	<u>20,508</u>	<u>0</u>	<u>20,508</u>
		<u>43,902</u>	<u>23,394</u>	<u>23,394</u>	<u>20,508</u>	<u>23,394</u>	<u>20,508</u>
Passed through Michigan Department of Education:							
Title II Part A							
Improving Teacher Quality 150520 2014-2015	84.367	165,738	134,027	23,224	385	23,609	0
Improving Teacher Quality 160520 2015-2016		<u>177,773</u>	<u>0</u>	<u>0</u>	<u>169,941</u>	<u>134,626</u>	<u>35,315</u>
		<u>343,511</u>	<u>134,027</u>	<u>23,224</u>	<u>170,326</u>	<u>158,235</u>	<u>35,315</u>
Passed through The Institute for Excellence in Education:							
i3 Grant - Middle Grades Leadership Development	84.411	<u>3,884</u>	<u>0</u>	<u>1,972</u>	<u>3,884</u>	<u>5,856</u>	<u>0</u>
Total U.S. Department of Education		<u>1,479,762</u>	<u>637,735</u>	<u>184,687</u>	<u>745,652</u>	<u>752,989</u>	<u>177,350</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Iosco Regional Educational Service Agency as Fiscal Agent:							
Medical Assistance Program Title XIX							
Medicaid Outreach Claims - 2014	93.778	1,792	1,792	1,792	0	0	1,792
Medicaid Outreach Claims - 2015		<u>1,312</u>	<u>0</u>	<u>0</u>	<u>1,312</u>	<u>1,312</u>	<u>0</u>
		<u>3,104</u>	<u>1,792</u>	<u>1,792</u>	<u>1,312</u>	<u>1,312</u>	<u>1,792</u>
Total Federal Financial Awards		<u>\$ 2,751,346</u>	<u>\$ 1,165,275</u>	<u>\$ 187,637</u>	<u>\$ 1,489,696</u>	<u>\$ 1,461,379</u>	<u>\$ 215,954</u>

The accompanying notes are an integral part of this schedule.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Note 1 - Basis of Presentation

A. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Oscoda Area Schools under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Oscoda Area Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Oscoda Area Schools.

Note 2 - Summary of Significant Accounting Policies

- A. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
- B. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
- C. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
- D. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
- E. Expenditures include spoilage or pilferage.
- F. Oscoda Area Schools did not elect to use a flat de minimis rate of 10% of modified total direct costs for their indirect cost rate.

Note 3 - Reconciliation to financial statements:

General Fund	\$	822,987
Special Revenue Funds:		
Food Service Fund		<u>668,501</u>
		1,491,488
Accounts Receivable for the year ended June 30, 2015 received more than 60 days after year end and recognized as federal revenue in the fiscal year ended June 30, 2016:		
Medicaid Assistance Program		<u>(1,792)</u>
		<u>\$ 1,489,696</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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September 16, 2016

Management and the Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Oscoda Area Schools for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 14, 2016. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on August 25, 2016. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the District and the Michigan Department of Education and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and the Uniform Guidance

As stated in our engagement letter dated July 14, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider Oscoda Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether Oscoda Area Schools' financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about Oscoda Area Schools' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on Oscoda Area Schools' compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on Oscoda Area Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated July 14, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Oscoda Area Schools are described in Note 1 to the financial statements. As described in Note 2 to the Financial Statements, Oscoda Area Schools changed accounting policies related to Investments by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 79, "Certain External investment Pools and Pool Participants" and Fair Value Measurement by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 72, "Fair Value Measurement and Application" in 2016. The application of existing policies was not changed during 2016. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Oscoda Area Schools' financial statements was :

Management's estimate of the net pension liability is based on the actuarial valuation audited by the Auditor General. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

- The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to and accepted by management on September 16, 2016. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Oscoda Area Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Oscoda Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Information, and the Required Pension Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Combining Nonmajor Funds Financial Statements and the Individual Fund Schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**APPENDIX II
MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Oscoda Area Schools' internal control over financial reporting (internal control) as a basis for designing 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 Oscoda Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Oscoda Area Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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. We consider the following deficiency in internal control to be a significant deficiency:

SEGREGATION OF DUTIES

During the audit we found that the completeness of activity fund deposits could not always be assured. Although management currently has good control procedures in place to ensure that each student activity event is supported by a completed recap/reconciliation, the required third party supporting documentation to support that all the money that should have been collected was collected, was not always attached. Without the procedures being followed consistently, completeness of the activity fund deposits cannot be assured. We recommend that management remind the employees, in charge of the various events, of the District's policies and procedures and require that they begin following those procedures, as designed.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Segregation of Duties - Activity Funds				X
Segregation of Duties - Athletics	X			
Parental Involvement	X			