Onsted Community Schools

Financial Statements
(with required supplementary and
additional supplementary information)
Year Ended June 30, 2017

Onsted Community Schools

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Independent Auditor's Report

To the Board of Education
Onsted Community Schools
Onsted, 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 Onsted Community Schools as of and for the year ended June 30, 2017, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Education
Onsted Community Schools
Onsted, Michigan

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 Onsted Community Schools as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Onsted Community Schools' 2016 financial statements, and we expressed on unmodified audit opinion on those audited financial statements in our report dated September 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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, schedule of proportionate share of net pension liability and schedule of contributions on pages 4 through 12 and pages 43 through 48, 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 Onsted Community Schools' basic financial statements. The combining fund financial statements and schedule of changes in assets and liabilities for the student activity fund are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of federal revenues is presented for purposes of additional analysis as requested by the State of Michigan Department of Education, and is also not a required part of the basic financial statements.

The combining fund financial statements, schedule of federal revenues and schedule of changes in assets and liabilities for the student activity fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 combining and individual nonmajor fund financial statements, schedule of federal revenues and schedule of changes in assets and liabilities for the student activity fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Education
Onsted Community Schools
Onsted, Michigan

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of the Onsted Community 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 Onsted Community Schools' internal control over financial reporting and compliance.

Meredith Francis, CPA, P.C.

Adrian, Michigan
September 18, 2017

Onsted Community Schools
Management's Discussion and Analysis
June 30, 2017

The Onsted Community School District (the District), a K-12 school district located in Lenawee County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the District administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2017.

This review must contain information about the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues by program for the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund.

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

- The government-wide statements, the **Statement of Net Assets** and the **Statement of Activities,** provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

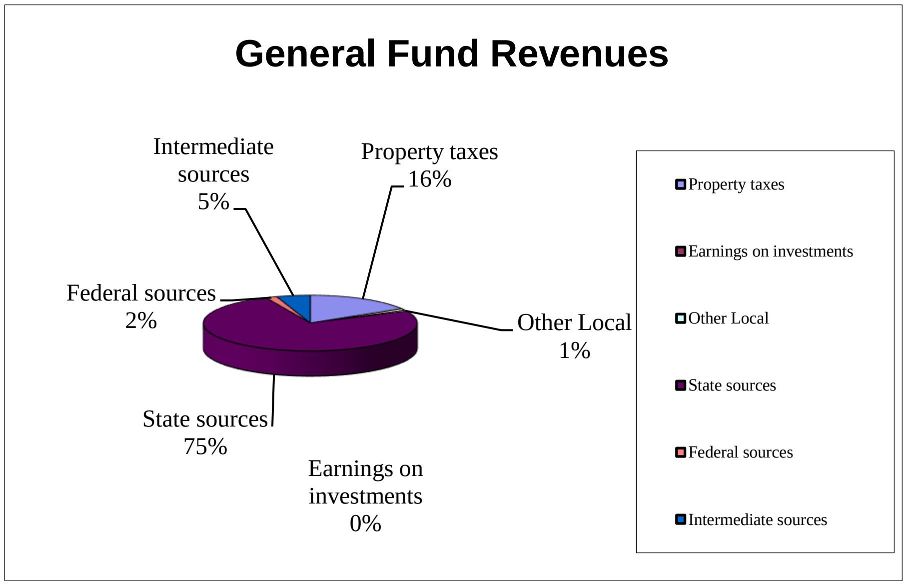
Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available if received within 60 days of the fiscal year end. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue, Debt Service and Capital Projects Funds.

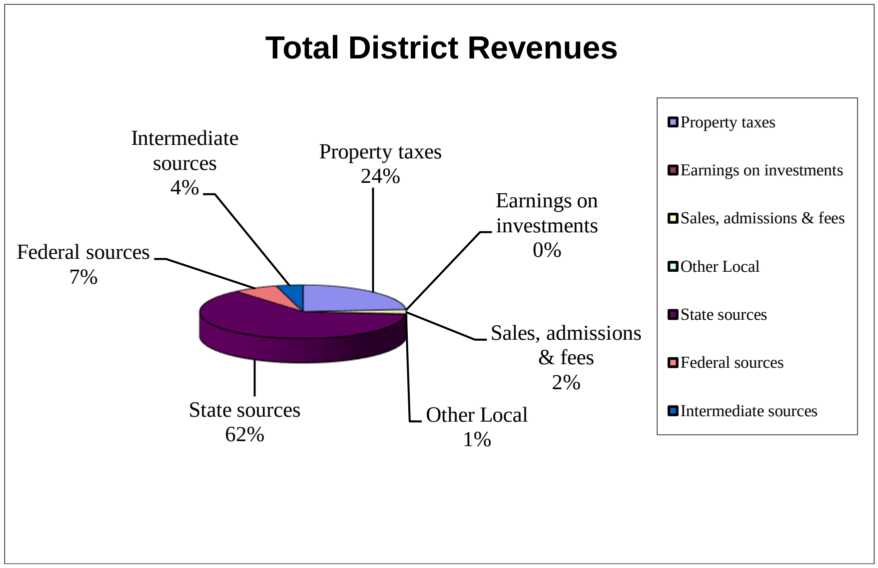
In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of $7,511 per student (an increase of $120 from the previous year):



Local revenue decreased from the previous year due to decreased property tax revenues. State revenue increased from the previous year due to changes in state aid. Federal revenues decreased due to changes in Title I and Title II-A funding. Intermediate revenue decreased due to changes in funding of the ISSI grant.

The graph below depicts the sources of revenue for all governmental funds of the District (including restricted), and, again, how much the District relies upon the health of the State's economy and ability to fund the budgeted per-pupil foundation allowance:



Government-wide Financial Statements

The government-wide (district wide) financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

The two district wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the District's overall health, consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district wide financial statements, the District has one category of activity:

Governmental activities are regular and special education, transportation, and administration as shown in greater detail in the financial statements. Property taxes and state formula aid provide the most funding for these activities.

Summary of Net Position

	Governmental Activities 2017	Governmental Activities 2016
Current assets	$ 4,313,148	$ 4,684,126
Capital assets, net of depreciation	26,143,124	26,824,672
Total assets	30,456,272	31,508,798
Deferred outflow of resources	2,293,174	2,044,276
Total assets and deferred outflows of resources	32,749,446	33,553,074
Noncurrent liabilities	17,102,103	18,593,478
Other liabilities	1,362,033	1,727,659
Net pension liability	19,330,920	19,388,066
Total liabilities	37,795,056	39,709,203
Deferred inflows of resources	1,757,860	1,473,592
Total liabilities and deferred inflows of resources	39,552,916	41,182,795
Net position:		
Net investment in capital assets	9,211,416	8,487,106
Restricted for:		
Debt service	794,784	777,456
Capital projects	202,214	187,130
Unrestricted	(17,011,884)	(17,081,413)
Total net position	$ (6,803,470)	$ (7,629,721)

Analysis of Financial Position

During the fiscal year ended June 30, 2017, the District's net position increased by $826,251. This compares to a $871,498 decrease in net position during the fiscal year ended June 30, 2016. Significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB Statements require school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2017, $818,661 was recorded for depreciation expense. This compares to $818,730 for the year ended June 30, 2016.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2017, $137,113 of expenditures were capitalized and recorded as assets of the District, and there were deletions of $35,561. This compares to capitalized expenditures of $28,089 and no deletions for the fiscal year ended June 30, 2016. These additions to the District's capital assets will be depreciated over their useful life. The major portion of these capital expenditures was for the purchase of food service equipment.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of $681,548 for the fiscal year ended June 30, 2017.

3. Recording of Pension Liability

Employees of Onsted Community Schools are members of the Michigan Public School Employees Retirement System (MPSERS). Due to a new requirement from the Governmental Accounting Standards Board (GASB 68) each district in the state of Michigan must disclose its proportionate share of net pension liability and pension expense. Also, there are additional requirements for pension-related Notes to the Financial Statement and Required Supplemental Information contained in the audit.

Proportionate share is based on each district's historical pension contributions to the system and is based on the MPSERS plan fiscal year (October 1 – September 30). Onsted's share of total pension liability for the state is 0.07748118% and amounts to $19,330,920 as of the end of the fiscal year. This amount is included in "long term liabilities outstanding" on the government-wide statement and puts the district in a negative position for total net assets. Onsted's proportionate share of pension expense is $1,710,867 as of the end of the MPSERS plan fiscal year.

This data will change every year as the liability is paid off over time, the market value of assets fluctuates over time, and the reporting unit proportionate share can change.

Results of Operations

For the fiscal year ended June 30, 2017, the results of operations, on a District-wide basis, were:

	Governmental Activities	
	2017	**2016**
Program revenues:		
General revenues:		
Property taxes, levied for general purposes	2,122,000	2,160,375
Property taxes, levied for debt service	1,629,197	1,610,345
Investment earnings	19,320	9,083
State sources-unrestricted	9,546,854	9,323,175
Intermediate sources	660,228	733,469
Other	54,239	68,129
Total general revenues	14,031,838	13,904,576
Program revenues:		
Charges for services	387,930	419,629
Capital grants	543,576	566,698
Operating grants	896,267	928,665
Total program revenues	1,827,773	1,914,992
Total revenues	15,859,611	15,819,568
Expenses:		
Instruction	8,294,406	8,394,761
Support services	3,965,903	5,510,729
Food services	594,420	582,687
Community services	42,738	40,965
Athletics	474,233	435,802
Interest expense	842,999	907,392
Unallocated depreciation	818,661	818,730
Total expenses	15,033,360	16,691,066
Change in net position	826,251	(871,498)
Net position, beginning of year	(7,629,721)	(6,758,223)
Net position, end of year	$ (6,803,470)	$ (7,629,721)

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. In May 2016 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2017. Property tax revenues for the 2016-17 fiscal year were $2,122,000 for general purposes.

2. State sources

The State of Michigan provides a $7,511 per pupil foundation allowance that provides a substantial portion of the District's revenue. In addition, the District received various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year, there was an adjustment made that includes two months of state aid payments that was not received in the fiscal year in which the related expenses occurred.

3. Student Enrollment

The District's blended count, which is used to compute the State Aid allowance, consists of 90% of the fall student count and 10% of the spring student count. For the 2016-16 school year, the District blended count was 1,386.75. This included a loss of 6 students from the previous year's blended count.

4. Salaries and benefits

A significant portion of the District's expenses are related to compensation of employees. Due to contracts in place with teachers, support staff and administration, those costs increased for support staff due to the addition of 3 student days. Teachers and administrators received performance pay based on evaluation but no step increases. Health insurance costs increased for teachers, administrators and for support staff, even though some of that cost was offset by insurance caps built into the contracts. Retirement costs increased from 36.31% of payroll to 36.64% of payroll, although a portion of that cost was reimbursed through state aid.

5. Instructional purchases

Instructional purchases including textbooks and supplemental learning materials, supplies, and purchased services comprise a substantial part of each year's budgetary expenditures.

6. Operations and maintenance

Operation and maintenance of our school buildings and vehicles also require a substantial portion of the District's budget.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. These budget amendments fall into two categories:

- Changes made in January 2017 and June 2017 to reflect increased revenues and expenses.
- Increases in appropriations to prevent budget overruns.

Although the District's final budget for the general fund anticipated that there would be no change to the fund balance, the actual results of the year show an increase of $1,099.

Analysis of differences between original and final budgeted amounts and between actual and budgeted amounts

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date, because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The final amendment is made just before year-end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report. The following analysis describes the reasons for changes in the budget during the year.

Revenues: Original estimated budgets for revenues were $12,670,408 versus the final budget of $13,141,463. Major components of revenue and their original versus final projections are discussed below.

- Property tax revenues decreased due to property value changes.
- State Aid was increased due to grant adjustments from the State including grants for Computer Adaptive Tests, Early Literacy Targeted Instruction, Financial Analytic Tools, MPSERS cost offset, At Risk funding and Dual Enrollment Incentives.
- Federal revenues were increased due to revised grant amounts for Title I and Title II-A including carryover.
- Intermediate revenues were decreased due to Special Education revenue being lower than anticipated, as well as changed use of the ISSI grant.

Expenses: The original budget for expenditures was $12,818,623 versus the final budget figure of $13,141,463. The main reason for the increase in expenditures was grant funds expenditures to match revenues.

Final budget versus actual figures

Even though the final budget is adopted at the end of June, final revenue and expense amounts are not complete until the audit is completed in August. Accounts payable and receivable must be recorded at that time and may be different from the amounts projected in June.

Capital Asset and Debt Administration

Capital Assets -

At July 1, 2016, the District had $26,824,672 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of $137,113 resulted from the purchase of a new bus and two used vehicles for maintenance and transportation. Deletions of $35,561 were recorded for equipment sold at auction. More detail is presented in the notes to the financial statements.

Long-Term Debt -

At June 30, 2017, the District's long-term debt obligations included $16,595,000 in bonds payable, and $248,519 in accumulated vested benefits including sick pay leave. More detail is presented in the notes to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In 2004, the District implemented the No Child Left Behind Act enacted by the federal government in 2003. Several requirements of this act could significantly increase District costs in 2017 and beyond.
- The State of Michigan has adopted a budget for 2017-18. The District's budget was adopted with an estimated foundation grant of $7,631 per student based on information known at the time, and an estimated blended student count of 1,357. These numbers may change based on the actual student count.
- Because the District has chosen to become a School of Choice district, enrollment may increase as students from neighboring districts take advantage of the choice opportunity. Schools of Choice was created in Section 105 of the State Aid Act and allows pupils who are not residents of Onsted School District but are residents of the Lenawee Intermediate School District the option to apply for enrollment. In the 2005-2006 school year, the Board of Education expanded the choice opportunity to contiguous counties under Section 105(c). There is a possibility that this will generate funds.
- The District is planning an energy savings project in 2017-18 including LED lighting district-wide, HVAC replacements and controls, roof repairs, domestic hot water system upgrade, mechanical improvements, fire alarm system replacement, additional security cameras, building envelope installations, a solar energy project, and electric rate structure change. The District is working with Energy Systems Group on this project and it is being funded by zero interest QZAB bonds over a 15-year period.

Contacting the District's Financial Management

This financial report is designed to provide the district citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Onsted Board of Education Office, Onsted Community School District, 10109 Slee Road, Onsted, Michigan 49265, or call (517) 467 - 2173.

Onsted Community Schools

Statements of Net Position

June 30, 2017 and 2016

	Governmental Activities	
	2017	**2016**
Assets:		
Cash and cash equivalents	$ 1,044,820	$ 1,174,240
Investments	1,277,969	1,597,619
Accounts receivable	67,756	33,468
Due from other governmental units	1,898,686	1,835,342
Inventory	6,049	7,078
Prepaids	17,868	36,379
Capital assets not being depreciated	176,792	176,792
Capital assets, net of accumulated depreciation	25,966,332	26,647,880
Total assets	30,456,272	31,508,798
Deferred outflows of resources:		
Deferred charge on refunding	170,395	204,474
Deferred pension amounts	2,122,779	1,839,802
Total assets and deferred outflows of resources	32,749,446	33,553,074
Liabilities:		
Accounts payable and accrued expenses	146,770	211,240
Accrued salaries and related items	945,180	1,206,571
Interest payable	130,709	144,439
Unearned revenue	139,374	165,409
Noncurrent liabilities:		
Due within one year	1,470,581	1,439,928
Due in more than one year	15,631,522	17,153,550
Net pension liability	19,330,920	19,388,066
Total liabilities	37,795,056	39,709,203
Deferred inflows of resources- deferred pension amounts	1,757,860	1,473,592
Total liabilities and deferred inflows of resources	39,552,916	41,182,795
Net position:		
Net investment in capital assets	9,211,416	8,487,106
Restricted for:		
Debt service	794,784	777,456
Capital projects	202,214	187,130
Unrestricted	(17,011,884)	(17,081,413)
Total net position	$ (6,803,470)	$ (7,629,721)

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

Onsted Community Schools

Statements of Activities

For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

		Program Revenues			Total Governmental Activities: Net (Expense) Revenue and Changes in Net Position	
Functions/programs	**Expenses**	**Charges for Services**	**Capital Grants**	**Operating Grants**	**2017**	**2016**
Governmental activities:						
Instruction	$ 8,294,406	$ 11,636	$ -	$ 340,626	$ (7,942,144)	$ (8,037,306)
Support services	3,965,903	54,716	543,576	140,609	(3,227,002)	(4,691,964)
Food services	594,420	253,344	-	369,633	28,557	46,644
Community services	42,738	11,315	-	-	(31,423)	(27,901)
Athletics	474,233	56,919	-	45,399	(371,915)	(339,425)
Interest on long term debt	842,999	-	-	-	(842,999)	(907,392)
Unallocated depreciation	818,661	-	-	-	(818,661)	(818,730)
Total governmental activities	15,033,360	387,930	543,576	896,267	(13,205,587)	(14,776,074)
General Revenues:						
Property taxes, levied for general purposes					2,122,000	2,160,375
Property taxes, levied for debt service					1,629,197	1,610,345
Investment earnings					19,320	9,083
State sources					9,546,854	9,323,175
Intermediate sources					660,228	733,469
Other					54,239	68,129
Total general revenues					14,031,838	13,904,576
Change in net position					826,251	(871,498)
Net position, beginning of year					(7,629,721)	(6,758,223)
Net position, end of year					$ (6,803,470)	$ (7,629,721)

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

Onsted Community Schools

Balance Sheets

Governmental Funds

June 30, 2017
With Comparative Totals for June 30, 2016

	General Fund	Debt Service	Nonmajor Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
Assets:					
Cash and cash equivalents	$ 113,551	$794,784	$ 136,485	$ 1,044,820	$ 1,174,240
Investments	1,238,607	-	39,362	1,277,969	1,597,619
Accounts receivable	67,756	-	-	67,756	33,468
Due from other governments	1,895,171	-	3,515	1,898,686	1,835,342
Due from other funds				70,000	-
Inventory	-	-	6,049	6,049	7,078
Prepaids	17,868	-	-	17,868	36,379
Total assets	$ 3,332,953	$ 794,784	$ 185,411	$ 4,383,148	$ 4,684,126
Liabilities:					
Accounts payable and accrued expenditures	145,996	-	774	146,770	211,240
Accrued salaries and related items	945,180	-	-	945,180	1,206,571
Due to other funds	70,000	-	-	70,000	-
Unearned revenue	133,075	-	6,299	139,374	165,409
Total liabilities	1,294,251	-	7,073	1,301,324	1,583,220
Deferred inflows of resources:					
Unavailable revenue	83,213	-	-	83,213	88,476
Fund balances:					
Nonspendable:					
Inventory	-	-	6,049	6,049	7,078
Prepaids	17,868	-	-	17,868	36,379
Restricted for:					
Food service	-	-	38,290	38,290	48,690
Debt service	-	794,784	-	794,784	777,456
Capital projects	-	-	202,214	202,214	187,130
Assigned	-	-	1,785	1,785	2,107
Unassigned	1,937,621	-	-	1,937,621	1,953,590
Total fund balance	1,955,489	794,784	248,338	2,998,611	3,012,430
Total liabilities, deferred inflows & fund balances	$ 3,332,953	$ 794,784	$ 255,411	$ 4,383,148	$ 4,684,126

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

Onsted Community Schools

Reconciliations of the Fund Balances of Governmental Funds
To the Net Position of Governmental Activities

June 30, 2017 and 2016

	2017		2016	
Total governmental fund balances		$ 2,998,611		$ 3,012,430
Amount reported for governmental activities in the statement of net position are different because.				
Deferred outflows of resources - deferred charge on refunding		170,395		204,474
Deferred outflows of resources - unavailable revenue		83,213		88,476
Deferred outflows of resources - related to pensions		2,122,779		1,839,802
Deferred inflows of resources - related to pensions		(1,757,860)		(1,473,592)
Capital assets used in the governmental activities are not financial resources and are not reported in the funds.				
The cost of the capital assets is	39,555,596		39,402,075	
The accumulated depreciation is	(13,412,472)		(12,577,403)	
		26,143,124		26,824,672
Long term liabilities are not due and payable in the current period and are not reported in the funds.				
Bonds payable		(16,853,584)		(18,337,566)
Compensated absences		(248,519)		(255,912)
Proportionate share of the MPSERS net pension liability		(19,330,920)		(19,388,066)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid		(130,709)		(144,439)
Net position of governmental activities		$ (6,803,470)		$ (7,629,721)

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

Onsted Community Schools

Statements of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
Revenues:					
Local sources:					
Property taxes	$ 2,122,000	$1,629,197	$ -	$ 3,751,197	$ 3,770,720
Investment earnings	10,131	8,068	1,121	19,320	9,083
Sales, admissions and fees	123,271	-	264,659	387,930	419,629
Other	80,134	-	2,419	82,553	100,994
Total local sources	2,335,536	1,637,265	268,199	4,241,000	4,300,426
State sources	9,803,304	1,634	26,521	9,831,459	9,636,093
Federal sources	224,785	541,942	342,612	1,109,339	1,149,580
Intermediate sources	665,491	-	-	665,491	733,971
Total revenues	13,029,116	2,180,841	637,332	15,847,289	15,820,070
Expenditures:					
Current:					
Instruction	8,291,421	-	-	8,291,421	8,383,511
Supporting services	3,964,487	-	-	3,964,487	4,074,875
Food service	-	-	593,658	593,658	582,696
Community service	1,101	-	41,637	42,738	40,965
Athletics	474,004	-	-	474,004	436,010
Other	-	-	60,731	60,731	35,962
Capital outlay	106,228	-	30,885	137,113	28,089
Debt service:					
Interest	41,788	839,844	-	881,632	940,101
Other	-	3,669	-	3,669	3,028
Total expenditures	12,879,029	843,513	726,911	14,449,453	14,525,237
Excess (deficiency) of revenues over (under) expenditures	150,087	1,337,328	(89,579)	1,397,836	1,294,833
Other financing sources (uses):					
Prior year expenditures	(4,240)	-	-	(4,240)	-
Sale of school property	17,585	-	-	17,585	-
Redemption of principal	(105,000)	(1,320,000)	-	(1,425,000)	(1,410,000)
Transfers in	42,667	-	100,000	142,667	67,699
Transfers out	(100,000)	-	(42,667)	(142,667)	(67,699)
Total other financing sources (uses)	(148,988)	(1,320,000)	57,333	(1,411,655)	(1,410,000)
Change in fund balances	1,099	17,328	(32,246)	(13,819)	(115,167)
Fund balances:					
Beginning of year	1,954,390	777,456	280,584	3,012,430	3,127,597
End of year	$ 1,955,489	$ 794,784	$ 248,338	$ 2,998,611	$ 3,012,430

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

Onsted Community Schools

Reconciliations of the Change in Fund Balances of Governmental Funds
To the Change in Net Position of Governmental Activities
For the Years Ended June 30, 2017 and 2016

	2017	2016
Change in fund balances - total governmental funds	$ (13,819)	$ (115,167)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	(818,661)	(818,730)
Capital outlay	137,113	28,089
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.		
Accrued interest payable, beginning of year	144,439	153,767
Accrued interest payable, end of year	(130,709)	(144,439)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.		
Repayment of principal	1,425,000	1,408,477
Amortization of defeasance of bond interest	(34,079)	(34,079)
Amortization of bond premium	69,395	69,395
Amortization of bond discount	(10,413)	(10,412)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available.		
Deferred inflows-Unearned revenue, end of year	83,213	88,476
Deferred inflows-Unearned revenue, beginning of year	(88,476)	(88,978)
Some expenses reported in the statement of activities do not require the use of current financial resoures and, therefore, are not reported as expenditures in the governmental funds.		
Net pension liability, beginning of year	19,388,066	17,623,084
Net pension liability, end of year	(19,330,920)	(19,388,066)
Deferred inflows-pension expense, end of year	(1,757,860)	(1,473,592)
Deferred inflows-pension expense, beginning of year	1,473,592	1,948,239
Deferred outflows-pension expense, end of year	2,122,779	1,839,802
Deferred outflows-pension expense, beginning of year	(1,839,802)	(1,937,165)
Accrued compensated absences, beginning of year	255,912	235,713
Accrued compensated absences, end of year	(248,519)	(255,912)
Change in net position of governmental activities	$ 826,251	$ (871,498)

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

Onsted Community Schools

Statements of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2017 and 2016

	Student Activities Fund	
	2017	**2016**
Assets:		
Cash and cash equivalents	$ 87,766	$ 94,790
Total assets	87,766	94,790
Liabilities:		
Due to student groups and activities	87,766	94,790
Total liabilities	$ 87,766	$ 94,790

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Onsted Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities. For the most part, the effect of interfund activity has been removed from the government-wide statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. state aid, taxes, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues.*

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The G*eneral Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The District reports the following nonmajor funds:

The S*pecial Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service and community services activities in the Special Revenue Funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and transfers from the General Fund for the acquisition of capital assets or to complete construction of major capital projects.

The District reports the following fiduciary fund:

The *Agency Fund* is used to account and report for assets that the District holds for student groups and activities and is custodial in nature.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies

The District first utilizes restricted resources when both restricted and unrestricted resources are available for use, then unrestricted resources as they are needed.

The District allocates indirect costs based on the state formula in the Food Service Fund.

Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. 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.

Cash and cash equivalents

Cash and equivalents include amounts in cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Inventories and Prepaids

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies (Continued)

Capital Assets

The District's capitalization policy is to capitalize individual amounts equal to or exceeding $5,000. Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	8 years

Deferred outflows 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 then. The District only has two items that qualify for reporting in this category. It is the deferred charge on refunding bonds and the deferred charges for pension expense reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing resources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

Compensated Absences

Employees can accumulate compensated absences by not using the number of sick days allotted each year. The liability was calculated using the vesting method, in which leave days for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies (Continued)

Deferred inflows of resources

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. The District has one item, which arises only under a modified accrual basis of accounting in the fund financial statements; and another that qualifies for reporting on the government wide statement of net position in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source: receipts that exceeded 60 days of year end. The deferred inflow from pension expense is presented on the face of the government wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity

Fund balances on the Governmental Fund Balance Sheet are classified as either nonspendable, restricted, assigned or unassigned. The term nonspendable indicates that a portion of the fund balance that will either never convert to cash or not convert within the current period. General fund reports a portion of fund balance as nonspendable for prepaid expenditures and the food service report reports an amount for inventory. Restricted fund balances are reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. The assigned fund balance represents the portion of fund balance that is constrained to specific purposes intended to be spent within the purpose of the fund. The unassigned fund balance represents the residual classification for the general fund.

When the District incurs and expenditure for purposes which various fund balance classifications could be used, it is the District’s policy to use restricted fund balance first, followed by committed fund balance, assigned fund balance, and then unassigned fund balance.

Pensions

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 (MPSERS or the System) and additions to/deductions from MPSERS’ fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Subsequent Events

Management has reviewed subsequent events up to September 18, 2017, the date of this report. The financial statements were available to be issued on the same date.

Note 1. Summary of Significant Accounting Policies (Concluded)

D. Other Accounting Policies (Concluded)

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2017, the District levied the following amounts per $1,000 of assessed valuation.

Fund	Mills
General Fund:	
Non-Principal Residence Exemption	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
Principal and Non-Principal Residence Exemption	1.760
Principal and Non-Principal Residence Exemption	1.890
Principal and Non-Principal Residence Exemption	0.090

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation 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 districts. For the year ended June 30, 2017, the foundation allowance was based on pupil membership counts taken in February 2016 and September of 2016.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on principal residence exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for commercial personal property tax. The state revenue is recognized during the foundation period and is funded through payments from October 2016 to August 2017. Thus, the unpaid portion at June 30th is reported as due from other governments.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when received.

Note 2. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

Appropriations lapse at the end of the fiscal year, even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2017. The District does not consider these amendments to be significant.

7. There were no functions exceeding budget on the General Fund and none on the Debt Fund Budgetary Comparison Schedule. Total expenditures did not exceed the amount appropriated in any fund.

Note 3. Deposits and Investments

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2017, $2,108,441 of the District's bank balance of $2,608,441 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 2,108,441

Investments

The District's investments are deposits in the Michigan Liquid Asset Fund (MILAF) and MILAF+ Portfolio. MILAF is a local government investment pool. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code. MILAF shares are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA). MILAF reports the fair value of the District's investment is the same as the value of the pool shares.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a credit risk policy. The MILAF investment is rated by Standard & Poor's Ratings Services, see table below.

Interest Rate Risk: The risk that changes in the interest rates will adversely affect the fair value of an investment. The District does not have an interest rate risk policy. The; the weighted average maturity of the entire MILAF portfolio at September 30, 2016 was 50 days.

The District's investments are as follows:

	Weighted Average Maturity	Fair Value	Standard & Poor's Rating
MILAF+ Portfolio	50.00	$ 47,180	*

*S&P Rating	Percentage of Portfolio
AA+	11.57%
A-1+	43.45%
A-1	39.25%
Exempt	5.73%

Note 3. Deposits and Investments (Concluded)

Valuation of Investments

Portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is the Fund's policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Fund discloses the fair value of the MILAF+ Portfolio's investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.

Level 3 – Unobservable inputs for the assets, including the Portfolios' own assumption for determining fair value.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940, however, the MILAF+ Portfolio is not registered under this act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2. There were no transfers between levels during the year ended September 30, 2016.

Note 4. Receivables

Receivables as of June 30, 2017 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	$ 67,756	$ -	$ 67,756
Due from other governments	1,895,171	3,515	1,898,686
	$ 1,962,927	$ 3,515	$ 1,966,442

Note 5. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Assets not being depreciated				
Land	$ 176,792			$ 176,792
Other capital assets:				
Land improvements	539,948			539,948
Buildings and additions	36,957,614			36,957,614
Equipment	710,224	31,098	35,561	705,761
Vehicles other than buses	64,182	25,315		89,497
Buses	1,005,284	80,700		1,085,984
Depreciable capital assets	39,225,283	137,113	35,561	39,378,804
Less: accumulated depreciation				
Land improvements	306,155	22,438		328,593
Buildings and additions	10,899,270	708,176		11,607,446
Equipment	520,926	35,259	(35,561)	520,624
Vehicles other than buses	51,709	3,986		55,695
Buses	851,312	48,802		900,114
Total accumulated depreciation	12,577,403	818,661	(35,561)	13,412,472
Net depreciable capital assets	26,647,880	(681,548)	-	25,966,332
Net capital assets	$ 26,824,672	$ (681,548)	$ -	$ 26,143,124

Depreciation for the fiscal year ended June 30, 2017 and 2016 amounted to $818,661 and $818,730, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 6. Short-Term Debt

The District issued state aid anticipation notes payable in the amount of $400,000, with and interest rate of 1.1%, and the note was paid in full during the fiscal year. The note is secured by the full faith and credit of the District as well as pledged staid aid. Interest expense for the year ended June 30, 2017 was $2,897.

Activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid anticipation note	$ -	$ 400,000	$ 400,000	$ -

Note 7. Long-Term Debt

The School District has authorized refunding bonds, dated February 19, 2014, for the purpose of refunding a portion of a prior bond issue of the School District. The bonds were issued for $5,315,000 at an interest rate ranging from 3% to 4%. The first scheduled payment was May 2016. The interest expense related to these bonds for the year ended June 30, 2017 and 2016 was $163,369 and $190,800, respectively.

A schedule of the 2014 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2018	4.00%	$ 650,000	$ 71,100	$ 71,100	$ 792,200
2019	4.00%	680,000	58,100	58,100	796,200
2020	4.00%	710,000	44,500	44,500	799,000
2021	4.00%	740,000	30,300	30,300	800,600
2022	4.00%	775,000	15,500	15,500	806,000
		$ 3,555,000	$ 219,500	$ 219,500	$ 3,994,000

The School District has issued a general obligation bond issue, dated September 1, 2011, that was used for school building and site purposes. The bond issue for $1,200,000 has an interest rate of 3.5%. The interest expense related to these bonds for the year ended June 30, 2017 and 2016 was $42,000 and $42,000, respectively.

A schedule of the 2011 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2028	3.500%	$ 1,200,000	$ 21,000	$ 21,000	$ 1,415,675
		$ 1,200,000	$ 21,000	$ 21,000	$ 1,415,675

Note 7. Long-Term Debt (Continued)

The School District has issued a general obligation bond issue, dated August 26, 2010, that will be used for school building and site purposes. The bond issue for $15,000,000 has an interest rate ranging from 1.300 to 5.900%. The interest expense related to these bonds for the year ended June 30, 2017 and 2016 was $634,475 and $660,725, respectively.

A schedule of the 2010 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2018	4.650%	$ 700,000	$ 302,363	$ 302,363	$ 1,304,725
2019	4.750%	700,000	286,088	286,088	1,272,175
2020	4.875%	700,000	269,463	269,463	1,238,925
2022	5.200%	1,400,000	234,200	234,200	1,868,400
2023			216,000	216,000	
2024	5.550%	3,000,000	174,375	174,375	3,348,750
2025			132,750	132,750	
2026			88,500	88,500	
2027	5.900%	4,500,000	44,250	44,250	4,588,500
		$ 11,000,000	$ 2,000,388	$ 2,000,388	$ 13,621,475

The School District has issued a general obligation bond issue, dated July 15, 2008, for the purpose of partially remodeling and equipping and re-equipping school facilities. The bond issue for $1,460,000 has an interest rate ranging from 3.72 to 4.00%. The interest expense related to these bonds for the year ended June 30, 2017 and 2016 was $41,788 and $45,706, respectively.

A schedule of the 2008 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2018	4.250%	$ 110,000	$ 18,663	$ 18,663	$ 147,325
2019	4.250%	125,000	16,325	16,325	157,650
2020	4.250%	135,000	13,669	13,669	162,338
2021	4.250%	145,000	10,800	10,800	166,600
2022	4.750%	155,000	7,719	7,719	170,438
2023	4.750%	170,000	4,038	4,038	178,075
		$ 840,000	$ 71,213	$ 71,213	$ 982,425

Note 7. Long-Term Debt (Concluded)

Employees can accumulate compensated absences by not using the number of sick days allotted each year. The maximum number of allowable accumulated sick days varies for employees depending on the capacity in which the District employs him/her. The vested liability for compensated absences is based on a percentage of an employee's daily rate of pay multiplied by the number of days accumulated by employees who have been employed by the District for ten or more years. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

The following is a schedule of the governmental long-term obligations for the District for the year ended June 30, 2017.

	Total Bonds	Compensated Absences	Total
Balance July 1, 2016	$ 18,020,000	$ 255,912	$ 18,275,912
Additions	-	376	376
Deletions	(1,425,000)	(7,769)	(1,432,769)
Balance June 30, 2017	16,595,000	248,519	16,843,519
Less: current portion	1,460,000	10,581	1,470,581
Total due after one year	$ 15,135,000	$ 237,938	$ 15,372,938

Debt Service requirements of governmental activities at June 30, 2017 were as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 1,460,000	$ 784,250	$ 2,244,250
2019	1,505,000	721,025	2,226,025
2020	1,545,000	655,263	2,200,263
2021	885,000	587,000	1,472,000
2022	2,330,000	514,838	2,844,838
2023-2027	7,670,000	887,825	443,913
2028	1,200,000	42,000	21,000
	$16,595,000	$ 4,192,200	$ 11,452,288

Note 8. Interfund Balances and Transfers

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2017 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Due From	Fund	Due To
Nonmajor	$ 70,000	General	$ 70,000

Interfund transfers are used to move the indirect costs incurred in the nonmajor food service fund to the general fund that expended them; and to use unrestricted revenues collected in the general fund to finance various programs accounted for in the nonmajor community service and capital projects funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfers Out
General	$ 42,667	General	$ 100,000
Nonmajor	100,000	Nonmajor	42,667
Totals	$ 142,667		$ 142,667

Note 9. Employee Retirement System Defined Benefit Plan

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), 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.

Note 9. Employee Retirement System Defined Benefit Plan (Continued)

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

Pension Reform 2010

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

Pension Reform 2012

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

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Note 9. Employee Retirement System Defined Benefit Plan (Continued)

Pension Reform 2012 (Concluded)

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the DC plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contribution and related earnings in their 401(k) account based on the following schedule: 50% at 2 years; 75% at 3 years; and 100% at 4 years of service. They are 100% vested in any personal contribution and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and FAC as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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

Regular Retirement

The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a MIP member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Pension Plan Eligibility

Plan	Eligibility Based on Years of Service	Vesting
Basic	Age 55 with 30 years or age 60 with 10 years	10 years
Member Investment Plan	Age 46 with 30 years or age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

Note 9. Employee Retirement System Defined Benefit Plan (Continued)

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 21 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.95 - 22.60%
Member Investment Plan	3.0 - 7.0%	18.95 - 22.60%
Pension Plus	3.0 - 6.4%	17.73%
Defined Contribution	0.0%	14.56 - 17.73%

Required contributions to the pension plan from Onsted Community Schools were $1,651,434 for the year ended September 30, 2016. The District's contribution to MPSERS under all pension plans for the year ended June 30, 2017 was $1,739,880. See the schedule of pension contributions on page 46 for additional information.

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

At June 30, 2017, the District reported a liability of $19,330,920 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The District's proportion 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, 2016, the District's proportion was .07748118%, which was a decrease of .00189669% from its proportion measured as of September 30, 2015.

Note 9. Employee Retirement System Defined Benefit Plan (Continued)

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

For the year ended June 30, 2017, the District recognized pension expense of $1,710,867. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 240,914	$ 45,815
Changes of assumptions	302,224	-
Net difference between projected and actual earnings on pension plan investments	321,280	
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	2,049	451,382
Reporting Unit contributions subsequent to the measurement date	1,256,312	1,260,663
Total	$ 2,122,779	$ 1,757,860

Note 9. Employee Retirement System Defined Benefit Plan (Continued)

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

$1,220,663 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, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ended September 30,	Amount
2017	$ 20,618
2018	(4,648)
2019	342,115
2020	11,185

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality:

RP-2000 Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-79, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used and for women, 96% of the table rates were used).

Note 9. Employee Retirement System Defined Benefit Plan (Continued)

Actuarial Assumptions (Concluded)

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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report *(www.michigan.gov/mpsers-cafr)*.

Long-Term Expected 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, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
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%
TOTAL	100.0%	

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

Note 9. Employee Retirement System Defined Benefit Plan (Concluded)

Discount Rate

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the 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%
$ 24,893,360	$ 19,330,920	$ 14,641,249

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the 2016 MPSERS CAFR (www.michigan.gov/documents/orsschools/MPSERS_CAFR_2016_Final_510211_7.pdf).

Note 10. Risk Management

The 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 District participates in two distinct pools of educational institutions within the State of Michigan, for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2017.

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. The likelihood of additional District liability is minimal.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2017 or any of the prior three years.

Note 11. Operating Leases

The District is a lessee in noncancelable operating leases with the following lessors:

MT Business Technologies, Inc. for copiers and color printers for $6,397.00 per month beginning May 2015, extending to June 2020. The District is also obligated by a monthly maintenance agreement.

Neopost USA Company for a postage meter beginning October 2014 and ending October 2019. Quarterly payments are $503.

A schedule of payments follows:

Year ended June 30,	MT Business Technologies	Neopost USA Company	Total
2018	$ 76,764	$ 2,014	$ 78,778
2019	76,764	1,510	78,274
2020	38,382	-	38,382
	$ 191,910	$ 3,524	$ 195,434

The rental costs, including maintenance, for the years ended June 30, 2017 and 2016 were $109,714 and $98,293, respectively.

Note 12. Net Position Restricted by Enabling Legislation

The government-wide statement of net position reports $996,998 of restricted net position at June 30, 2017, all of which is restricted by enabling legislation.

Required Supplementary Information

Onsted Community Schools

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources	$2,359,106	$ 2,353,063	$2,335,536	$ (17,527)
State sources	9,311,399	9,810,586	9,803,304	(7,282)
Federal sources	221,954	250,848	224,785	(26,063)
Intermediate sources	737,949	666,713	665,491	(1,222)
Total revenues	12,630,408	13,081,210	13,029,116	(52,094)
EXPENDITURES:				
Instruction:				
Basic programs	6,569,398	6,642,054	6,630,624	11,430
Added needs	1,666,891	1,663,839	1,660,797	3,042
Total instruction	8,236,289	8,305,893	8,291,421	14,472
Supporting services:				
Pupil	667,141	676,072	668,982	7,090
Instructional staff	139,937	155,805	135,625	20,180
General administration	362,006	351,732	349,461	2,271
School administration	672,742	641,770	639,939	1,831
Business services	183,468	183,784	183,732	52
Operations & maintenance	1,219,859	1,233,266	1,231,516	1,750
Pupil transportation	534,589	542,611	541,579	1,032
Technology	197,949	213,967	213,653	314
Athletics	464,234	475,685	474,004	1,681
Community services	9,200	2,522	1,101	1,421
Total support services	4,451,125	4,477,214	4,439,592	37,622
Capital outlay	-	108,328	106,228	
Debt service:				
Interest	41,788	41,788	41,788	-
Total expenditures	12,729,202	12,933,223	12,879,029	52,094
Excess (deficiency) of revenues over (under) expenditures	(98,794)	147,987	150,087	-
Other financing sources (uses):				
Prior year expenditures		(4,240)	(4,240)	-
Sale of school property		17,585	17,585	-
Redemption of principal	(105,000)	(105,000)	(105,000)	-
Transfers in	40,000	42,668	42,667	(1)
Transfers out	(27,300)	(99,000)	(100,000)	(1,000)
Total other financing sources (uses)	(92,300)	(147,987)	(148,988)	(1,001)
Change in fund balance	(191,094)	-	1,099	(1,001)
Fund balances:				
Beginning of year			1,954,390	
End of year			$1,955,489	

Onsted Community Schools

Required Supplementary Information

Budgetary Comparison Schedule

Debt Service Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	$ 1,616,527	$ 1,640,133	$ 1,637,265	$ (2,868)
State sources		1,635	1,634	(1)
Federal sources	544,185	541,942	541,942	-
Total revenues	2,160,712	2,183,710	2,180,841	(2,869)
Expenditures:				
Interest	843,476	839,845	839,844	1
Other	4,950	3,675	3,669	6
Total expenditures	848,426	843,520	843,513	7
Excess (deficiency) of revenues over (under) expenditures	1,312,286	1,340,190	1,337,328	(2,862)
Other financing sources (uses):				
Redemption of principal	(1,320,000)	(1,320,000)	(1,320,000)	-
Total other financing sources (uses)	(1,320,000)	(1,320,000)	(1,320,000)	-
Change in fund balance	(7,714)	20,190	17,328	(2,862)
Fund balances:				
Beginning of year			777,456	
End of year			$ 794,784	

Onsted Community Schools

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

June 30, 2017

		2017	2016
A.	Reporting unit's proportion of net pension liability (%)	0.07748%	0.07938%
B.	Reporting unit's proportionate share of net pension liability	$ 19,330,920	$ 19,388,066
C.	Reporting unit's covered-employee payroll	$ 6,449,686	$ 6,757,703
D.	Reporting units' proportionate share of net pension liability as a percentage of its covered-employee payroll	299.7188%	286.9032%
E.	Plan fiduciary net position as a percentage of total pension liability	63.01%	63.17%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

The notes to the required supplementary information are an integral part of this schedule.

Onsted Community Schools

Required Supplementary Information

Schedule of Contributions

June 30, 2017

		2017	2016
A.	Statutorily required contributions	$ 1,739,880	$ 1,664,848
B.	Contributions in relation to statutorily required contributions	$ 1,739,880	$ 1,664,848
C.	Contribution deficiency (excess)	$ -	$ -
D.	Reporting unit's covered-employee payroll	$ 6,585,921	$ 6,497,087
E.	Contributions as a percentage of covered-employee payroll	26.4182%	25.6245%

The notes to the required supplementary information are an integral part of this schedule.

Onsted Community Schools

Notes to Required Supplementary Information

For the Year Ended June 30, 2017

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

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

Additional Supplementary Information

Onsted Community Schools

Combining Balance Sheet

Nonmajor Funds

June 30, 2017
With Comparative Totals for June 30, 2016

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds 2017	Total Nonmajor Governmental Funds 2016
Assets:				
Cash and cash equivalents	$ 4,271	$ 132,214	$ 136,485	$ 202,086
Investments	39,362	-	39,362	42,731
Due from other governmental units	3,515	-	3,515	3,500
Due from other funds		70,000	70,000	-
Prepaid expense	-	-	-	35,579
Inventory	6,049	-	6,049	7,078
Total assets	53,197	202,214	255,411	290,974
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	774	-	774	3,947
Unearned revenue	6,299	-	6,299	6,443
Total liabilities	7,073	-	7,073	10,390
Fund Balances:				
Nonspendable:				
Inventory	6,049	-	6,049	7,078
Prepaids	-	-	-	35,579
Restricted for:				
Food service	38,290	-	38,290	48,690
Capital projects	-	202,214	202,214	187,130
Assigned	1,785	-	1,785	2,107
Total fund balances	46,124	202,214	248,338	280,584
Total liabilities & fund balances	$ 53,197	$ 202,214	$ 255,411	$ 290,974

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

Onsted Community Schools

Combining Statement of Revenues, Expenditures & Changes In Fund Balance

Nonmajor Funds

For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds 2017	Total Nonmajor Governmental Funds 2016
Revenues:				
Local sources:				
Investment earnings	$ -	$ 1,121	$ 1,121	$ 748
Sales, admissions and fees	264,659	-	264,659	278,252
Other	2,419	-	2,419	21,774
Total local sources	267,078	1,121	268,199	300,774
State sources	26,521	-	26,521	26,745
Federal sources	342,612	-	342,612	337,398
Total revenues	636,211	1,121	637,332	664,917
Expenditures:				
Food service activities	593,658	-	593,658	582,696
Community service activities	41,637	-	41,637	37,197
Other	-	60,731	60,731	35,962
Capital outlay	-	30,885	30,885	28,089
Debt service:				
Interest	-	-	-	870
Total expenditures	635,295	91,616	726,911	684,814
Excess (deficiency) of revenues over (under) expenditures	916	(90,495)	(89,579)	(19,897)
Other financing sources (uses):				
Redemption of principal	-	-	-	(20,000)
Transfers in	30,000	70,000	100,000	23,000
Transfers out	(42,667)	-	(42,667)	(44,699)
Total other financing sources (uses)	(12,667)	70,000	57,333	(41,699)
Change in fund balances	(11,751)	(20,495)	(32,246)	(61,596)
Fund balances:				
Beginning of year	57,875	222,709	280,584	342,180
End of year	$ 46,124	$ 202,214	$ 248,338	$ 280,584

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

Onsted Community Schools

Combining Balance Sheet

Special Revenue Funds

June 30, 2017
With Comparative Totals for June 30, 2016

	Food Service	Community Service	Total Special Revenue Funds 2017	Total Special Revenue Funds 2016
Assets:				
Cash and cash equivalents	$ 2,360	$ 1,911	$ 4,271	$ 14,956
Investments	39,362	-	39,362	42,731
Due from other governmental units	3,515	-	3,515	3,500
Inventory	6,049	-	6,049	7,078
Total assets	51,286	1,911	53,197	68,265
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	648	126	774	3,947
Unearned revenue	6,299	-	6,299	6,443
Total liabilities	6,947	126	7,073	10,390
Fund Balances:				
Nonspendable:				
Inventory	6,049	-	6,049	7,078
Restricted for:				
Food service	38,290	-	38,290	48,690
Assigned	-	1,785	1,785	2,107
Total fund balances	44,339	1,785	46,124	57,875
Total liabilities & fund balances	$ 51,286	$ 1,911	$ 53,197	$ 68,265

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

Onsted Community Schools

Combining Statement of Revenues, Expenditures & Changes In Fund Balance

Special Revenue Funds

For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	Food	Community	Total Special Revenue Funds	
Revenues:	Service	Service	2017	2016
Local sources:				
Sales, admissions and fees	$ 253,344	$ 11,315	$ 264,659	$ 278,252
Other	2,419		2,419	1,339
Total local sources	255,763	11,315	267,078	279,591
State sources	26,521	-	26,521	26,745
Federal sources	342,612	-	342,612	337,398
Total revenues	624,896	11,315	636,211	643,734
Expenditures:				
Cost of goods sold - net	271,829		271,829	275,171
Salaries and wages	180,068	26,902	206,970	200,858
Employee benefits	92,138	12,098	104,236	99,466
Contracted services	25,782	2,086	27,868	19,064
Travel, workshops and conferences	1,147		1,147	331
Materials and supplies	22,694	551	23,245	25,003
Capital outlay			-	28,089
Total expenditures	593,658	41,637	635,295	647,982
Excess (deficiency) of revenues over (under) expenditures	31,238	(30,322)	916	(4,248)
Other financing sources (uses):				
Transfers in		30,000	30,000	23,000
Transfers out	(42,667)		(42,667)	(44,699)
Total other financing sources (uses)	(42,667)	30,000	(12,667)	(21,699)
Change in fund balances	(11,429)	(322)	(11,751)	(25,947)
Fund balances:				
Beginning of year	55,768	2,107	57,875	83,822
End of year	$ 44,339	$ 1,785	$ 46,124	$ 57,875

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

Onsted Community Schools

Schedule of Federal Revenues

For the Year Ended June 30, 2017

Reconciliation of Fund Financial Statement Federal Revenue to Expenditures subject to Uniform Guidance

Federal revenues per fund financial statements	$ 1,109,339
Less: exempt federal tax credit on QSCB bonds	(541,942)
Expenditures subject to Uniform Guidance	$ 567,397

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

Onsted Community Schools

Schedule of Changes in Assets and Liabilities

Student Activity Fund

For the Year Ended June 30, 2017

	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and cash equivalents	$94,790	$130,345	$137,369	$87,766
Total Assets	$94,790	$130,345	$137,369	$87,766
Liabilities:				
Due to student groups	$94,790	$130,345	$137,369	$87,766
Total Liabilities	$94,790	$130,345	$137,369	$87,766

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

Meredith
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**Independent Auditor's Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Education
Onsted Community Schools
Onsted, Michigan

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Onsted Community Schools' basic financial statements and have issued our report thereon dated September 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Onsted Community 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 Onsted Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Onsted Community 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Education
Onsted Community Schools
Onsted, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Onsted Community Schools' financial statements are free of 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*, though I feel it is prudent to report the following other matter, which is described as:

The District does not have proper segregation of duties over journal entries, cash receipts, disbursements and accounts payable. A good system of internal control provides for a proper segregation of the accounting functions. Proper segregation is not always possible, but segregation to the extent possible should be implemented to reduce the risk of errors or fraud. The Board should be aware of and attempt to establish procedures to minimize risk.

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.

Meredith Francis, CPA, P.C.

Adrian, Michigan
September 18, 2017