

**ONSTED COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2013**



**ONSTED COMMUNITY SCHOOLS**

**TABLE OF CONTENTS**

**JUNE 30, 2013**

	<b><u>PAGE</u></b>
<b>Independent Auditors' Report</b>	1 – 3
<b>Management's Discussion and Analysis</b>	4 – 12
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statements of Fiduciary Assets and Liabilities – Fiduciary Fund	19
Notes to Financial Statements	20 – 36

**ONSTED COMMUNITY SCHOOLS**

**TABLE OF CONTENTS**

**JUNE 30, 2013**

	<u><b>PAGE</b></u>
<b>Required Supplementary Information:</b>	37
Budgetary Comparison Schedule – General Fund	38
Budgetary Comparison Schedule – Debt Service Fund	39
Budgetary Comparison Schedule – Capital Projects Fund	40
<b>Other Additional Information:</b>	41
Nonmajor Special Revenue Funds	
Combining Balance Sheet	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	43
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	44 – 45
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	46 – 47
Schedule of Expenditures of Federal Awards	48 – 49
Notes to Schedule of Expenditures of Federal Awards	50
Schedule of Findings and Questioned Costs	51 – 52



## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

### **Report on the Financial Statements**

I 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, 2013, and related notes to the financial statements, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of Onsted Community Schools' management 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Your partner in financial statement auditing and all things accounting.

126 E. Church Street, Adrian, Michigan 49221 | phone: 517.945.3312 - meredithamatthews@gmail.com

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

## **Opinions**

In my 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and pages 35 through 37, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Onsted Community Schools' basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated September 16, 2013, on my consideration of the Onsted Community Schools' internal control over financial reporting and on my 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 my 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 A. Matthews, CPA*

Adrian, Michigan  
September 16, 2013

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

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, 2013.

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 position** 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**

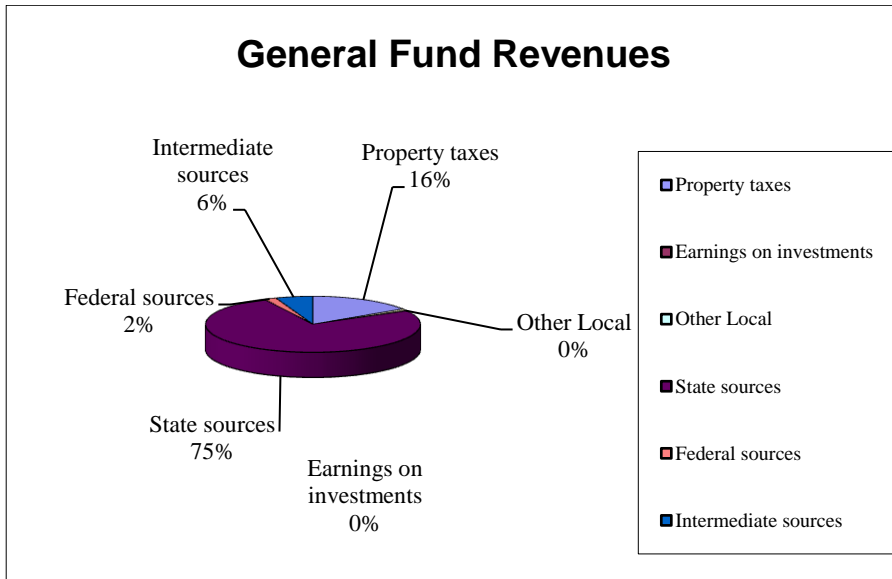
For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available 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.

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

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 \$6966 per student (an increase of \$120 from the previous year):

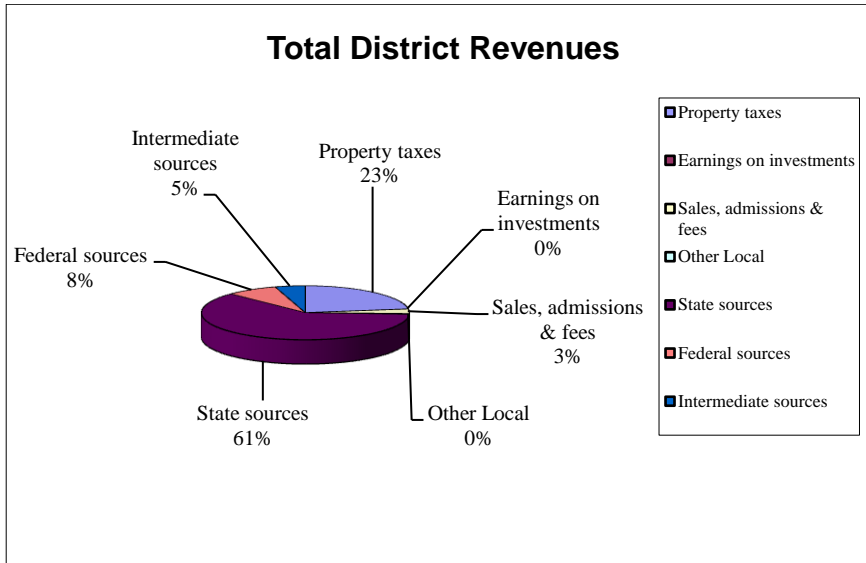


Local revenue increased from the previous year due to increased property taxes. State revenue increased from the previous year due to increases in performance-based funding, At Risk funding, and MPSERS cost offset. Federal revenues decreased due to the loss of Education Jobs funding and IDEA ARRA Flowthrough Grant funding. Intermediate revenue increased due to additional funding from Lenawee Intermediate School District for special education.



**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

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 position and how they have changed. Net position, 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 position 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.

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**Summary of Net Position**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
Current and other assets	\$ 6,040,143	\$ 10,224,283
Capital assets	29,159,480	25,579,467
Total assets	<u>35,199,623</u>	<u>35,803,750</u>
Long term liabilities outstanding	21,393,369	22,772,276
Other liabilities	2,758,011	2,803,793
Total liabilities	<u>24,151,380</u>	<u>25,576,069</u>
<b>Net position:</b>		
Invested in capital assets, net of related debt	6,519,098	5,747,133
Restricted for:		
School lunch	1,043,542	1,133,693
Capital Projects	501,292	567,283
Unrestricted	2,873,836	2,779,572
Total net position	<u>\$ 10,937,768</u>	<u>\$ 10,227,681</u>

**Analysis of Financial Position**

During the fiscal year ended June 30, 2013, the District's net position increased by \$710,087. This compares to a \$599,425 increase in net position during the fiscal year ended June 30, 2012. Significant factors affecting net position during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires 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, 2013, \$556,430 was recorded for depreciation expense. This compares to \$534,027 for the year ended June 30, 2012.

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2013, \$16,721,517 of expenditures were capitalized and recorded as assets of the District, and there were \$13,141,504 in deletions. This compares to capitalized expenditures of \$12,931,842 and deletions of \$2,754,828 for the fiscal year ended June 30, 2012. 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 change from construction in process to increased value of buildings and additions due to the completion of the bond project.

The net effect of the new capital assets, the disposal of unusable capital assets and the current year's depreciation is an increase to capital assets in the amount of \$4,136,443 for the fiscal year ended June 30, 2013.

**3. Issuance of Long-Term Debt**

On May 4, 2010, the Onsted community passed a bond issue not to exceed \$16.2 million for the purpose of infrastructure improvement to the buildings and grounds including roofs, heating and cooling systems, security systems, safety and accessibility, and technology upgrades. Of the \$16.2 million in bonds, \$15 million were sold as Qualified School Construction Bonds at extremely low interest through the American Recovery and Reinvestment Act (ARRA). Investors receive tax credits from the federal government rather than interest payments. The remaining \$1.2 million were borrowed through traditional bonding. The project was completed during the 2012-13 school year.

The net effect of long-term debt in the 2012-13 school year is an increase to net position of \$710,087 compared to an increase of net position in 2011-12 of \$599,425.

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**Results of Operations**

For the fiscal year ended June 30, 2013, the results of operations, on a District-wide basis, were:

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
Program revenues:		
General revenues:		
Property taxes, levied for general purposes	2,000,366	1,956,614
Property taxes, levied for debt service	1,562,615	1,618,517
Investment earnings	(26,770)	(3,043)
State sources-unrestricted	9,237,277	9,079,975
Intermediate sources	724,860	646,213
Other	70,001	59,602
	<hr/>	<hr/>
Total general revenues	13,568,349	13,357,878
Program revenues:		
Charges for services	421,840	467,859
Capital grants	697,174	717,798
Operating grants	918,073	836,081
	<hr/>	<hr/>
Total program revenues	2,037,087	2,021,738
Total revenues	<hr/>	<hr/>
	15,605,436	15,379,616
Expenses:		
Instruction	7,833,413	8,110,355
Support services	4,202,369	3,925,582
Food services	714,632	768,317
Community services	34,778	38,102
Athletics	430,704	427,838
Interest expense	1,123,023	975,970
Unallocated depreciation	556,430	534,027
	<hr/>	<hr/>
Total expenses	14,895,349	14,780,191
Change in net position	710,087	599,425
Net position, beginning of year	<hr/>	<hr/>
	10,227,681	9,628,256
Net position, end of year	<hr/> <hr/>	<hr/> <hr/>
	\$ 10,937,768	\$ 10,227,681

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**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 2012 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2013. Property tax revenues for the 2012-13 fiscal year were \$2,000,366 for general purposes.

**2. State sources**

The State of Michigan provides a \$6,966 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 previous spring's student count. For the 2012-13 school year, the District blended count was 1,530.09. This included a loss of 25 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 a 0.5% increase in hourly wage for Step 4 support staff only. Other salaries were frozen. 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 24.46% of payroll to 27.37% of payroll, although a portion of that cost was reimbursed through state aid. FICA costs and worker compensation costs remained stable.

**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.

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**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 2013 and June 2013 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 an increase to fund balance of \$62,624, the actual results of the year show an increase of \$155,123.

**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 \$11,918,428 versus the final budget of \$12,671,009. Major components of revenue and their original versus final projections are discussed below.

- Property tax revenues increased due to property value changes.
- State Aid was increased due to a higher student count than originally budgeted, and grants from the State including Best Practice Incentive, MPSERS cost offset, Technology Infrastructure, and increased At Risk funding.
- Federal revenues were increased due to revised grant amounts for Title I and Title II-A.
- Intermediate revenues were increased due to Special Education revenue being higher than anticipated.

**ONSTED COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

*Expenses:* The original budget for expenditures was \$12,473,684 versus the final budget figure of \$12,608,385. The main reason for the increase in expenditures was the change in retirement cost reporting required by the State of Michigan.

**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, 2012, the District had \$25,579,467 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of \$16,721,517 resulted from addition to the value of buildings due to the completion of the bond project, as well as the purchase of a new bus, van, technology equipment and a music storage system. Decreases resulted from the transfer of \$13,141,504 from construction in progress to building values for completed work. More detail is presented in the notes to the financial statements.

**Long-Term Debt -**

At June 30, 2013, the District's long-term debt obligations included \$22,593,477 in bonds payable, and \$231,553 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:

- Retirement costs for 2013-14 are unknown at this time due to the temporary restraining order on Public Act 300 of 2012.
- 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 2013 and beyond.
- The State of Michigan has adopted a budget for 2013-14. The District's budget was adopted with an estimated foundation grant of \$7,076 per student based on information known at the time, and an estimated blended student count of 1,500. 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.

**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**

**STATEMENT OF NET POSITION**

**June 30, 2013 and 2012**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,597,966	\$ 2,809,914
Investments	2,011,049	5,091,700
Accounts receivable	118,236	71,768
Taxes receivable	-	92
Due from other governmental units	1,849,331	1,734,277
Interest receivable	-	10,991
Inventory	13,699	8,561
<b>Noncurrent assets:</b>		
Capital assets	39,868,992	35,732,549
Less: Accumulated depreciation	(10,709,512)	(10,153,082)
Accrued interest receivable on defeased bonds	306,711	340,791
Prepaid bond costs	143,151	156,189
	<hr/>	<hr/>
Total assets	<u>35,199,623</u>	<u>35,803,750</u>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	195,025	189,250
Accrued salaries and related items	1,115,936	1,011,358
Interest payable	53,796	58,895
Current portion of long term obligations	1,385,000	1,351,862
Current portion of compensated absences	8,254	15,309
<b>Noncurrent liabilities:</b>		
Noncurrent portion of long term obligations	21,208,477	22,593,477
Add: Unearned premium on bonds net of accumulated amortization	46,905	52,768
Less: Unearned discount on bonds net of accumulated amortization	(85,312)	(91,406)
Compensated absences	223,299	217,437
	<hr/>	<hr/>
Total liabilities	24,151,380	25,576,069
Deferred inflows		
Unearned revenue	110,475	177,119
<b>Net position:</b>		
Invested in capital assets net of related debt	6,519,098	5,747,133
<b>Restricted for:</b>		
Debt service	1,043,542	1,133,693
Capital projects	501,292	567,283
Unrestricted	2,873,836	2,779,572
	<hr/>	<hr/>
Total net position	<u>\$ 10,937,768</u>	<u>\$ 10,227,681</u>

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



**ONSTED COMMUNITY SCHOOLS**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2013  
With Comparative Totals for the Year Ended June 30, 2012**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Total Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>	
					<u>2013</u>	<u>2012</u>
<b>Governmental activities:</b>						
Instruction	\$ 7,833,413	\$ 9,977		\$ 378,854	\$ (7,444,582)	\$ (7,792,637)
Support services	4,202,369	39,372	670,184	140,572	(3,352,241)	(3,071,440)
Food services	714,632	297,200		395,447	(21,985)	(1,686)
Community services	34,778	14,486		3,200	(17,092)	(16,638)
Athletics	430,704	60,805	26,990		(342,909)	(366,055)
Interest on long term debt including amortization of discount, premium and bond issuance costs	1,123,023				(1,123,023)	(975,970)
Unallocated depreciation	556,430				(556,430)	(534,027)
Total governmental activities	<u>14,895,349</u>	<u>421,840</u>	<u>697,174</u>	<u>918,073</u>	<u>(12,858,262)</u>	<u>(12,758,453)</u>
<b>GENERAL REVENUES:</b>						
Property taxes, levied for general purposes					2,000,366	1,956,614
Property taxes, levied for debt service					1,562,615	1,618,517
Investment earnings					(26,770)	(3,043)
State sources					9,237,277	9,079,975
Intermediate sources					724,860	646,213
Other					70,001	59,602
Total general revenues					<u>13,568,349</u>	<u>13,357,878</u>
Change in net position					710,087	599,425
Net position, beginning of year					<u>10,227,681</u>	<u>9,628,256</u>
Net position, end of year					<u>\$ 10,937,768</u>	<u>\$ 10,227,681</u>

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

**ONSTED COMMUNITY SCHOOLS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**June 30, 2013**

**With Comparative Totals for June 30, 2012**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds 2013</b>	<b>Total Governmental Funds 2012</b>
<b>ASSETS:</b>						
Cash and cash equivalents	\$ 143,039	\$ 1,043,542	\$ 401,292	\$ 10,093	\$ 1,597,966	\$ 2,809,914
Investments	1,985,058			25,991	2,011,049	5,091,700
Accounts receivable	29,258			2,221	31,479	1,821
Taxes receivable				-	-	92
Due from other governmental units	1,844,761			4,570	1,849,331	1,734,277
Due from other funds			100,000	-	100,000	-
Interest receivable					-	10,991
Inventory				13,699	13,699	8,561
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 4,002,116</u>	<u>\$ 1,043,542</u>	<u>\$ 501,292</u>	<u>\$ 56,574</u>	<u>\$ 5,603,524</u>	<u>\$ 9,657,356</u>
<b>LIABILITIES:</b>						
Accounts payable and accrued expenditures	189,113			5,912	195,025	189,250
Accrued salaries and related items	1,115,936				1,115,936	1,011,358
Due to other funds	100,000			-	100,000	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,405,049	-	-	5,912	1,410,961	1,200,608
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deferred inflows	104,585			5,890	110,475	177,119
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE:</b>						
Nonspendable				13,699	13,699	8,561
Restricted for:						
School lunch				29,544	29,544	
Debt service		1,043,542			1,043,542	1,133,693
Capital projects			501,292		501,292	4,733,056
Assigned				1,529	1,529	67,360
Unassigned	2,492,482				2,492,482	2,336,867
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balance	2,492,482	1,043,542	501,292	44,772	4,082,088	8,279,537
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows & fund balance	<u>\$ 4,002,116</u>	<u>\$ 1,043,542</u>	<u>\$ 501,292</u>	<u>\$ 56,574</u>	<u>\$ 5,603,524</u>	<u>\$ 9,480,145</u>

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

**ONSTED COMMUNITY SCHOOLS**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION**

**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Total governmental fund balances	\$ 4,082,088	\$ 8,279,629
Amount reported for governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital asset is	39,868,992	35,732,549
The accumulated depreciation is	<u>(10,709,512)</u>	<u>(10,153,082)</u>
	29,159,480	25,579,467
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Special education revenue from the Lenawee Intermediate School District	86,757	69,947
Delinquent personal property taxes	-	-
Accrued interest receivable on defeased bonds	306,711	340,791
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(22,593,477)	(23,945,339)
Unearned premium on bonds net of amortization	(46,905)	(52,768)
Unearned discount on bonds net of amortization	85,312	91,406
Unearned bond issuance costs	143,151	156,189
Compensated absences	(231,553)	(232,746)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid	<u>(53,796)</u>	<u>(58,895)</u>
Net position of governmental activities	<u><u>\$ 10,937,768</u></u>	<u><u>\$ 10,227,681</u></u>

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

**ONSTED COMMUNITY SCHOOLS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2013  
With Comparative Totals for the Year Ended June 30, 2012**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>	
					<b>2013</b>	<b>2012</b>
<b>REVENUES:</b>						
<b>Local sources:</b>						
Property taxes	\$ 2,000,366	\$ 1,562,615		\$	\$ 3,562,981	\$ 3,584,535
Investment earnings	1,572	2,504	\$ 3,234		7,310	9,757
Sales, admissions and fees	110,154			311,686	421,840	467,859
Other	38,770		26,990	4,731	70,491	33,587
Total local sources	2,150,862	1,565,119	30,224	316,417	4,062,622	4,095,738
State sources	9,526,551	7,189		38,744	9,572,484	9,307,016
Federal sources	233,352	662,995		356,703	1,253,050	1,326,838
Intermediate sources	708,050			26,500	734,550	663,679
Total revenues	12,618,815	2,235,303	30,224	738,364	15,622,706	15,393,271
<b>EXPENDITURES:</b>						
<b>Current:</b>						
Instruction	7,841,205				7,841,205	8,112,753
Support services	3,992,147				3,992,147	3,897,402
Food service activities				714,084	714,084	768,514
Community service activities	3,200			31,578	34,778	38,102
Athletic activities	430,685				430,685	427,838
Other			202,065		202,065	34,636
Capital outlay			4,136,443		4,136,443	10,711,041
<b>Debt service:</b>						
Interest	54,906	1,056,467	3,480		1,114,853	1,141,630
Other	-	2,125			2,125	4,363
Total expenditures	12,322,143	1,058,592	4,341,988	745,662	18,468,385	25,136,279
Excess (deficiency) of revenues over (under) expenditures	296,672	1,176,711	(4,311,764)	(7,298)	(2,845,679)	(9,743,008)
<b>Other financing sources (uses):</b>						
Sale of school property					-	1,015
Proceeds from bond issuance					-	1,200,000
Redemption of principal	(65,000)	(1,266,862)	(20,000)		(1,351,862)	(1,150,669)
Unrealized gain (loss) on investments					-	21,280
Transfers in	45,631		100,000	21,780	167,411	58,699
Transfers out	(121,780)			(45,631)	(167,411)	(58,699)
Total other financing sources (uses)	(141,149)	(1,266,862)	80,000	(23,851)	(1,351,862)	71,626
Change in fund balances	155,523	(90,151)	(4,231,764)	(31,149)	(4,197,541)	(9,671,382)
<b>Fund balances:</b>						
Beginning of year	2,336,959	1,133,693	4,733,056	75,921	8,279,629	17,951,011
End of year	\$ 2,492,482	\$ 1,043,542	\$ 501,292	\$ 44,772	\$ 4,082,088	\$ 8,279,629

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

**ONSTED COMMUNITY SCHOOLS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

**For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Change in fund balances total governmental funds	\$ (4,197,541)	\$ (9,671,382)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of revenues, expenditures, and changes in fund balances. These costs are allocated over their estimated useful lives as depreciation on the statement of activities:		
Depreciation expense	(556,430)	(534,027)
Capital outlay	4,136,443	10,711,041
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid		
Accrued interest payable beginning of year	58,895	62,412
Accrued interest payable end of year	(53,796)	(58,895)
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 issuance costs, 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.		
	1,304,513	78,732
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		
Special education revenue from the Lenawee		
Intermediate School District-end of year	86,757	69,947
Special education revenue from the Lenawee		
Intermediate School District-beginning of year	(69,947)	(62,413)
Amount due for personal property taxes-end of year		
Amount due for personal property taxes-beginning of year		(9,404)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in governmental funds:		
Accrued compensated absences beginning of year	232,746	246,160
Accrued compensated absences end of year	<u>(231,553)</u>	<u>(232,746)</u>
Change in net position of governmental activities	<u>\$ 710,087</u>	<u>\$ 599,425</u>

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

**ONSTED COMMUNITY SCHOOLS**  
**STATEMENTS OF FIDUCIARY NET POSITION**

**FIDUCIARY FUNDS**

**June 30, 2013 and 2012**

		<b>Agency Fund</b>	
		<b>2013</b>	<b>2012</b>
<b>ASSETS:</b>			
Cash and cash equivalents		\$ 86,666	\$ 86,344
Total assets		86,666	86,344
 <b>LIABILITIES:</b>			
Due to student groups		86,666	86,344
Total liabilities		\$ 86,666	\$ 86,344

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

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **basic financial statements** of Onsted Community Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s significant accounting policies are described below.

**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 generally accepted accounting principles. 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 Statement No. 14.

**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. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

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 Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Government-Wide And Fund Financial Statements** (Continued)

The District first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income, and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

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.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General 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 *Capital Projects Fund* accounts for the receipt of monies from the General Fund to purchase assets or to complete construction of major capital projects.

**Other Non-major Funds**

The *Special 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.



**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Government-Wide And Fund Financial Statements** (Continued)

**Fiduciary Funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting.

This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis Of Accounting And Basis Of 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, state and federal aid, 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.

**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, 2013, the foundation allowance was based on pupil membership counts taken in February and September of 2012.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**C. Measurement Focus, Basis Of Accounting And Basis Of Presentation** (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2008 to August 2010. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

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 received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, 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. The 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. The District has adopted a deposit and investment policy in accordance with GASB Statement No. 40.

2. 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.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

For the year ended June 30, 2013, the District levied the following amounts per \$1,000 of assessed valuation.

<u><b>Fund</b></u>	<u><b>Mills</b></u>
General Fund:	
Non-Principal Residence Exemption	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
Principal and Non-Principal Residence Exemption	2.020
Principal and Non-Principal Residence Exemption	1.740
Principal and Non-Principal Residence Exemption	0.010

3. Inventories and Prepaid Expenditures

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.

4. Capital Assets

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.

The District's capitalization policy is to capitalize individual amounts equal to or exceeding \$5,000.

5. Fund Balances

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 taxes receivable and the school lunch report reports an amount for inventory. Restricted fund balances are constrained to specific purposes by constitutional provisions or enabling legislation. The assigned fund balance represents the portion of fund balance that is intended to be spent within the purpose of the fund. The unassigned fund balance represents the residual classification for the general fund.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Other Accounting Policies (Continued)**

5. Fund Balances (Continued)

After classifying any fund balance as nonspendable, the District considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

6. 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.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (Continued)

4. The Superintendent and Business Manager are authorized to transfer 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, 2013. The District does not consider these amendments to be significant.
7. There were no functions exceeding budget on the General Fund and Capital Projects 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, 2013, \$2,487,411 of the District's bank balance of \$2,987,411 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,273,675
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**Investments**

The District's investments are deposits in the Michigan Liquid Asset Fund (MILAF) and MILAF time deposits. 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 weighted average maturity of the entire MILAF portfolio at September 30, 2012 was 51 days.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 3. DEPOSITS AND INVESTMENTS**

The District's investments are as follows:

	<b>Weighted Average Maturity</b>	<b>Fair Value</b>	<b>Standard &amp; Poor's Rating</b>
Michigan Liquid Asset Fund:	51.00		
General and School Lunch Fund		\$ 2,011,049	*
	<b>*S&amp;P Rating</b>	<b>Percentage of Portfolio</b>	
	AA+	37.1%	
	A-1+	31.3%	
	A-1	28.2%	
	Not rated	3.4%	

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 4. CAPITAL ASSETS**

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

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2013</b>
<b>Assets not being depreciated</b>				
Land	\$ 176,792			\$ 176,792
Construction in progress	9,125,940	4,015,564	13,141,504	-
	9,302,732	4,015,564	13,141,504	176,792
<b>Other capital assets:</b>				
Land improvements	539,948			539,948
Buildings and additions	23,816,110	13,141,504		36,957,614
Equipment	643,208	20,024		663,232
Vehicles other than buses	40,899	23,283		64,182
Buses	1,389,652	77,572		1,467,224
Depreciable capital assets	26,429,817	13,262,383	-	39,692,200
Less: accumulated depreciation	10,153,082	556,430		10,709,512
Net depreciable capital assets	16,276,735	12,705,953	-	28,982,688
Net capital assets	<u>\$ 25,579,467</u>	<u>\$ 16,721,517</u>	<u>\$ 13,141,504</u>	<u>\$ 29,159,480</u>

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

Depreciation for the fiscal year ended June 30, 2013 and 2012 amounted to \$556,430 and \$534,027, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 5. LONG-TERM DEBT**

The School District has issued a general obligation bond issue, dated September 1, 2011, that will be 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, 2013 was \$28,000.

A schedule of the 2011 bond issue is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2028	3.500%	\$ 1,200,000	\$ 21,000	\$ 21,000	\$ 1,415,675
		<u>\$ 1,200,000</u>	<u>\$ 21,000</u>	<u>\$ 21,000</u>	<u>\$ 1,415,675</u>

The School District has issued a general obligation bond issue, dated May 4, 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, 2013 was \$722,175.

A schedule of the 2010 bond issue is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2014	2.700%	\$ 700,000	\$ 351,013	\$ 351,013	\$ 1,402,025
2015	3.200%	700,000	341,563	341,563	1,383,125
2016	3.750%	700,000	330,363	330,363	1,360,725
2017	4.250%	700,000	317,238	317,238	1,334,475
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
2027	5.900%	4,500,000	44,250	44,250	4,588,500
		<u>\$ 13,800,000</u>	<u>\$ 3,340,563</u>	<u>\$ 3,340,563</u>	<u>\$ 19,101,825</u>



**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 5. LONG-TERM DEBT** (Continued)

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, 2013 was \$57,106.

A schedule of the 2008 bond issue is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2014	4.125%	\$ 75,000	\$ 26,153	\$ 26,153	\$ 127,306
2015	4.125%	85,000	24,606	24,606	134,213
2016	4.125%	95,000	22,853	22,853	140,706
2017	4.250%	105,000	20,894	20,894	146,788
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
		<u>\$ 1,200,000</u>	<u>\$ 165,719</u>	<u>\$ 165,719</u>	<u>\$ 1,531,438</u>

The School District has issued a general obligation bond issue, dated June 28, 2007, for the purpose of constructing and equipping a running track and developing and improving the site. The bond issue for \$200,000 has an interest rate of 4.35%. The interest expense related to these bonds for the year ended June 30, 2013 was \$4,350.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 5. LONG-TERM DEBT** (Continued)

A schedule of the 2007 bonds is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2014	4.35%	\$ 20,000	\$ 1,740	\$ 1,740	\$ 23,480
2015	4.35%	20,000	1,305	1,305	22,610
2016	4.35%	18,477	870	870	20,217
		<u>\$ 58,477</u>	<u>\$ 3,915</u>	<u>\$ 3,915</u>	<u>\$ 66,307</u>

The School District has authorized refunding bonds, dated December 22, 2004, for the purpose of refunding a portion of a prior bond issue of the School District. The bonds were issued for \$8,940,000 at an interest rate ranging from 2.5% to 5.0%. The interest expense related to these bonds for the year ended June 30, 2013 was \$317,365.

A schedule of the 2004 bond issue is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2014	5.00%	\$ 590,000	\$ 135,233	\$ 135,233	\$ 860,466
2015	4.00%	620,000	120,483	120,483	860,966
2016	4.00%	645,000	108,083	108,083	861,166
2017	4.10%	670,000	95,183	95,183	860,366
2018	4.15%	700,000	81,448	81,448	862,896
2019	4.20%	730,000	66,923	66,923	863,846
2020	4.25%	760,000	51,593	51,593	863,186
2021	4.35%	790,000	35,443	35,443	860,886
2022	4.40%	830,000	18,260	18,260	866,520
		<u>\$ 6,335,000</u>	<u>\$ 712,649</u>	<u>\$ 712,649</u>	<u>\$ 7,760,298</u>

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 5. LONG-TERM DEBT** (Continued)

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, 2013.

	<u><b>Total Bonds</b></u>	<u><b>Compensated Absences</b></u>	<u><b>Total</b></u>
Balance July 1, 2012	\$ 23,945,339	\$ 246,160	\$ 24,191,499
Additions	-	702	702
Deletions	<u>(1,351,862)</u>	<u>(15,309)</u>	<u>(1,367,171)</u>
Balance June 30, 2013	22,593,477	231,553	22,825,030
Less: current portion	<u>1,385,000</u>	<u>8,254</u>	<u>1,393,254</u>
Total due after one year	<u><u>\$ 21,208,477</u></u>	<u><u>\$ 223,299</u></u>	<u><u>\$ 21,431,776</u></u>

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 5. LONG-TERM DEBT** (Continued)

Debt Service requirements of governmental activities at June 30, 2013 were as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 1,385,000	\$ 1,028,277	\$ 2,413,277
2015	1,425,000	976,241	2,401,241
2016	1,458,477	924,337	2,382,814
2017	1,475,000	866,629	2,341,629
2018	1,510,000	804,946	2,314,946
2019-2023	6,640,000	2,965,838	9,605,838
2024-2028	8,700,000	921,750	9,621,750
	<b>\$22,593,477</b>	<b>\$ 8,488,018</b>	<b>\$ 31,081,495</b>

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 6. 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, 2011 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

<b>Fund</b>	<b>Due From</b>	<b>Fund</b>	<b>Due To</b>
Capital Projects	\$ 100,000	General	\$ 100,000
Nonmajor	-		
Totals	\$ 100,000		\$ 100,000

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

<b>Fund</b>	<b>Transfers In</b>	<b>Fund</b>	<b>Transfers Out</b>
General	\$ 45,631	General	\$ 121,780
Nonmajor	21,780	Nonmajor	45,631
Totals	\$ 167,411		\$ 167,411

**ONSTED COMMUNITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 7. 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 defined benefit pension plan governed by the State of Michigan. The MPSERS provides retirement survivor benefits and postretirement benefits for health, dental, and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended.

The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for pension and post employment health care plans. That report is available online at <http://www.michigan.gov/orsschools> or may be obtained by writing to Michigan Public School Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of compensation up to \$5,000; 3.6% of compensation \$5,001 through \$15,000; 4.3% of compensation over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of compensation up to \$5,000; 3.6% of compensation \$5,001 through \$15,000; 6.4% of compensation over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on August 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

Members joining the system on or after July 1, 2010 were enrolled in the hybrid Pension Plus retirement plan. Under this plan, employee contributions are invested into a 457 plan administered by ING. Participants may withdraw from the 457 account as soon as 30 days after terminating Michigan public school employment. Employer contributions are invested in a 401(k) plan administered by ING. Participants may withdraw from this type of account beginning at age 59 ½ or 30 days after terminating Michigan public school employment. Investment earnings accrue on a tax-deferred basis.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2013 were 24.46% of payroll through September 30, 2012, and 24.32% effective October 1, 2012 through June 30, 2013. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to the MPSERS for the years ended June 30, 2013, 2012, and 2010, were \$1,647,719, \$1,658,693, and \$1,453,676, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. Under the MPSERS Act, all retirees have the option of continuing health, dental, and vision coverage through the State of Michigan.

**ONSTED COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 8. 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, 2013. 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, 2013 or any of the prior three years.

**NOTE 9. OPERATING LEASES**

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

MT Business Technologies, Inc. for copiers and color printers for \$4,376.00 per month beginning April 2013, extending to June 2017. The District is also obligated by a monthly maintenance agreement.

The rental costs for the years ended June 30, 2013 and 2012 were \$41,281 and \$44,708, respectively.

**NOTE 10. NET POSITION RESTRICTED BY ENABLING LEGISLATION**

**Net Position**

The government-wide statement of net position reports \$1,544,834 of restricted net position at June 30, 2013, 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, 2013**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES:</b>				
Local sources	\$2,162,056	\$ 2,157,784	\$2,150,862	\$ (6,922)
State sources	9,020,371	9,517,923	9,526,551	8,628
Federal sources	173,500	243,350	233,352	(9,998)
Intermediate sources	534,500	706,321	708,050	1,729
Total revenues	<u>11,890,427</u>	<u>12,625,378</u>	<u>12,618,815</u>	<u>(6,563)</u>
<b>EXPENDITURES:</b>				
<b>Instruction:</b>				
Basic programs	6,604,682	6,445,787	6,414,281	31,506
Added needs	1,456,913	1,434,638	1,426,924	7,714
Total instruction	<u>8,061,595</u>	<u>7,880,425</u>	<u>7,841,205</u>	<u>39,220</u>
<b>Support services:</b>				
Pupil	571,596	577,968	577,033	935
Instructional staff	246,240	285,363	277,544	7,819
General administration	399,780	358,000	345,583	12,417
School administration	705,867	750,774	745,578	5,196
Business	180,104	179,734	173,865	5,869
Operation & maintenance	1,226,700	1,109,909	1,100,267	9,642
Transportation	557,607	584,967	571,627	13,340
Central	142,601	205,490	200,650	4,840
Athletic activities	425,000	430,868	430,685	183
Community services	-	3,200	3,200	-
Total support services	<u>4,455,495</u>	<u>4,486,273</u>	<u>4,426,032</u>	<u>60,241</u>
<b>Debt service:</b>				
Interest	57,107	54,907	54,906	1
Total debt service	<u>57,107</u>	<u>54,907</u>	<u>54,906</u>	<u>1</u>
Total expenditures	<u>12,574,197</u>	<u>12,421,605</u>	<u>12,322,143</u>	<u>99,462</u>
Excess (deficiency) of revenues over (under) expenditures	(683,770)	203,773	296,672	92,899
<b>Other financing sources (uses):</b>				
Sale of school property				-
Redemption of principal	(55,000)	(65,000)	(65,000)	-
Transfers in		45,631	45,631	-
Transfers out	(16,230)	(121,780)	(121,780)	-
Total other financing sources (uses)	<u>(71,230)</u>	<u>(141,149)</u>	<u>(141,149)</u>	<u>-</u>
Change in fund balance	(755,000)	62,624	155,523	92,899
<b>Fund balances:</b>				
Beginning of year			<u>2,336,959</u>	
End of year			<u><u>\$2,492,482</u></u>	

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

**ONSTED COMMUNITY SCHOOLS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**

**For the Year Ended June 30, 2013**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues:</b>				
Local sources	1,666,300	1,569,272	1,565,119	(1,569,272)
State sources	7,200	7,189	7,189	1,557,930
Federal sources		662,995	662,995	
<b>Total revenues</b>	1,673,500	2,239,456	2,235,303	(11,342)
<b>Expenditures:</b>				
Interest	370,046	1,056,467	1,056,467	0
Other	1,725	2,125	2,125	0
<b>Total expenditures</b>	371,771	1,058,592	1,058,592	0
<b>Excess (deficiency) of revenues over (under) expenditures</b>	1,301,729	1,180,864	1,176,711	(11,342)
Other financing sources (uses):				
Redemption of principal	(1,040,000)	(1,266,862)	(1,266,862)	0
<b>Change in fund balance</b>	261,729	(85,998)	(90,151)	(11,342)
<b>Fund balances:</b>				
Beginning of year			1,133,693	
End of year			1,043,542	

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

**ONSTED COMMUNITY SCHOOLS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAPITAL PROJECTS FUND**  
**For the Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 11,760	\$ 41,038	\$ 30,224	\$ (10,814)
Total revenues	11,760	41,038	30,224	(10,814)
<b>EXPENDITURES:</b>				
Interest		3,480	3,480	-
Other	20,000	219,024	202,065	16,959
Capital outlay	14,015,000	4,126,097	4,136,443	(10,346)
Total expenditures	14,035,000	4,348,601	4,341,988	6,613
Excess (deficiency) of revenues over (under) expenditures	(14,023,240)	(4,307,563)	(4,311,764)	(17,427)
<b>Other financing sources (uses):</b>				
Redemption of principal		(20,000)	(20,000)	-
Transfers in		100,000	100,000	-
Total other financing sources (uses)	-	80,000	80,000	-
Change in fund balance	(14,023,240)	(4,227,563)	(4,231,764)	(17,427)
<b>Fund balances:</b>				
Beginning of year			4,733,056	
End of year			<u>\$ 501,292</u>	

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

**OTHER ADDITIONAL INFORMATION**

**ONSTED COMMUNITY SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUES FUNDS**

**June 30, 2013**  
**With Comparative Totals for June 30, 2012**

	<b>Special Revenue Funds</b>			
	<b>School</b>	<b>Community</b>	<b>Totals</b>	
	<b>Lunch</b>	<b>Service</b>	<b>2013</b>	<b>2012</b>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 8,564	\$ 1,529	\$ 10,093	\$ 7,763
Investments	25,991		25,991	61,728
Accounts receivable	2,221		2,221	137
Due from other governmental units	4,570		4,570	5,247
Inventory	13,699		13,699	8,561
Total assets	<u>55,045</u>	<u>1,529</u>	<u>56,574</u>	<u>83,436</u>
<b>LIABILITIES &amp; FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenditures	5,912		5,912	1,074
Unearned revenue	5,890		5,890	6,441
Total liabilities	<u>11,802</u>	<u>-</u>	<u>11,802</u>	<u>7,515</u>
<b>Fund Balances:</b>				
Nonspendable	13,699		13,699	8,561
Restricted	29,544		29,544	
Assigned		1,529	1,529	67,360
Total fund balances	<u>43,243</u>	<u>1,529</u>	<u>44,772</u>	<u>75,921</u>
Total liabilities & fund balances	<u>\$ 55,045</u>	<u>\$ 1,529</u>	<u>\$ 56,574</u>	<u>\$ 83,436</u>

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 SPECIAL REVENUE FUNDS**

**For the Year Ended June 30, 2013  
With Comparative Totals for the Year Ended June 30, 2012**

	<b>Special Revenue Funds</b>			
	<b>School</b>	<b>Community</b>	<b>Total</b>	
	<b>Lunch</b>	<b>Service</b>	<b>2013</b>	<b>2012</b>
<b>REVENUES:</b>				
<b>Local sources:</b>				
Sales, admissions and fees	\$ 297,200	\$ 14,486	\$ 311,686	\$ 355,820
Other	4,731		4,731	2,699
Total local sources	301,931	14,486	316,417	358,519
State sources	38,744		38,744	33,831
Federal sources	356,703		356,703	391,424
Intermediate sources	26,500		26,500	25,000
Total revenues	723,878	14,486	738,364	808,774
<b>EXPENDITURES:</b>				
Cost of goods sold - net	336,326		336,326	396,443
Salaries and wages	223,202	22,386	245,588	244,539
Employee benefits	100,616	7,187	107,803	103,815
Contracted services	17,185	1,651	18,836	16,037
Travel, workshops and conferences	1,159		1,159	1,188
Materials and supplies	35,596	354	35,950	37,574
Capital outlay			-	14,335
Total expenditures	714,084	31,578	745,662	813,931
Excess (deficiency) of revenues over (under) expenditures	9,794	(17,092)	(7,298)	(5,157)
<b>Other financing sources (uses):</b>				
Transfers in	4,680	17,100	21,780	17,240
Transfers out	(45,631)		(45,631)	(41,459)
Total other financing sources (uses)	(40,951)	17,100	(23,851)	(24,219)
Change in fund balances	(31,157)	8	(31,149)	(29,376)
<b>Fund balances:</b>				
Beginning of year	74,400	1,521	75,921	105,297
End of year	\$ 43,243	\$ 1,529	\$ 44,772	\$ 75,921

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



**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

I have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2013, which collectively comprise Onsted Community Schools' basic financial statements and have issued my report thereon dated September 16, 2013. I conducted my 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing my audit, I considered Onsted Community Schools' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Onsted Community School District's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described as 2013-1 in the accompanying schedule of findings and questioned costs that I

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To the Board of Education  
Onsted Community Schools

consider to be significant deficiencies in internal control over financial reporting. 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.

#### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Onsted Community Schools' financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described as follows:

A good system of internal control provides for a proper segregation of the accounting functions. The District does not have proper segregation of duties over cash receipts, disbursements and accounts payable. 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.

Onsted Community Schools' response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Onsted Community Schools' response, and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Meredith A. Matthews, CPA*

Adrian, Michigan  
September 16, 2013





**Meredith A. Matthews**  
certified public accountant  
Professional - Reliable - Resourceful

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

**COMPLIANCE**

I have audited Onsted Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Onsted Community Schools' major federal programs for the year ended June 30, 2013. Onsted Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Onsted Community Schools' management. My responsibility is to express an opinion on Onsted Community Schools' compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Onsted Community Schools' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Onsted Community Schools' compliance with those requirements.

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To the Board of Education  
Onsted Community Schools

In my opinion, Onsted Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

#### **INTERNAL CONTROL OVER COMPLIANCE**

The management of Onsted Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Onsted Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Onsted Community Schools' internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

Onsted Community Schools' response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Onsted Community Schools' response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the State of Michigan Department of Education or its designee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Meredith A. Matthews, CPA*

Adrian, Michigan  
September 16, 2013

**ONSTED COMMUNITY SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2013**

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award</b>	<b>Accrued (Deferred) Revenue July 1, 2012</b>	<b>(Memo Only) Prior Years Expenditures</b>	<b>Current Years Expenditures</b>	<b>Current Years Receipts</b>	<b>Accrued (Deferred) Revenue June 30, 2013</b>
<b>U.S. Department of Agriculture</b>							
Passed Through MDE							
Child Nutrition Cluster*							
School Breakfast Program	10.553	\$ 82,926			\$ 74,116	\$ 74,116	\$ -
National School Lunch Program							
Cash	10.555	225,727			225,727	225,727	-
Entitlement Commodities		56,860			56,860	56,860	-
Bonus Commodities							-
Total National School Lunch Program		282,587	-	-	282,587	282,587	-
Total Child Nutrition Cluster		365,513	-	-	356,703	356,703	-
<b>Total U.S. Department of Agriculture</b>		<b>\$ 365,513</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 356,703</b>	<b>\$ 356,703</b>	<b>\$ -</b>
<b>U.S. Department of Education</b>							
Passed through M.D.E.							
Title I, Part A							
1205301112	84.010	\$ 168,946	\$ 31,214	\$ 161,839		\$ 31,214	\$ -
1305301213		175,054			171,929	153,910	18,019
Total Title I, Part A		344,000	31,214	161,839	171,929	185,124	18,019
Title II Part A							
1205201112	84.367	52,917	7,848	33,974		7,848	-
1305201213		60,796			58,780	56,974	1,806
Total Title II Part A		113,713	7,848	33,974	58,780	64,822	1,806
<b>Total U.S. Department of Education</b>		<b>\$ 457,713</b>	<b>\$ 39,062</b>	<b>\$ 195,813</b>	<b>\$ 230,709</b>	<b>\$ 249,946</b>	<b>\$ 19,825</b>
<b>Total Passed through MDE</b>		<b>\$ 823,226</b>	<b>\$ 39,062</b>	<b>\$ 195,813</b>	<b>\$ 587,412</b>	<b>\$ 606,649</b>	<b>\$ 19,825</b>

The accompanying notes are an integral part of this schedule.

**ONSTED COMMUNITY SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2013**

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award</b>	<b>Accrued (Deferred) Revenue July 1, 2012</b>	<b>(Memo Only) Prior Years Expenditures</b>	<b>Current Years Expenditures</b>	<b>Current Years Receipts</b>	<b>Accrued (Deferred) Revenue June 30, 2013</b>
Federal Grantor Pass Through Other Pass through - Lenawee Intermediate School District (LISD)							
Medical Assistance Program 1213	93.778	2,643			2,643	2,643	-
Total Passed Through LISD		2,643	-	-	2,643	2,643	-
<b>Total Federal Financial Assistance</b>		<b>\$ 825,869</b>	<b>\$ 39,062</b>	<b>\$ 195,813</b>	<b>\$ 590,055</b>	<b>\$ 609,292</b>	<b>\$ 19,825</b>

**ONSTED COMMUNITY SCHOOLS**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2013**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards presents the activity of all awards programs of Onsted Community Schools (District). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of the District is defined in Note 1 of the District's basic financial statements.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting which is described in Note 1 of the District's basic financial statements.

Management has utilized the CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards. Differences on amounts reported are shown below:

Reconciliation to the Grants Auditor Report for 2012-13

Current year receipts per Schedule of Expenditures of Federal Awards	\$ 609,292
Less: Commodities	(56,860)
Amount passed through LISD	<u>(2,643)</u>
Total Grant Auditor Reports per the State of Michigan	<u><u>\$ 549,789</u></u>

The District also received a federal tax credit through the Qualified School Construction Bonds (QSCB) that is included in federal revenue that is not reported on the SEFA. A reconciliation follows:

Reconciliation of Schedule of Expenditures of Federal Awards to Fund Financial Statement Federal Revenue

Federal expenditures per SEFA	\$ 590,055
Federal tax credit on QSCB bonds	<u>662,995</u>
Federal revenues per fund financial statements	<u><u>\$ 1,253,050</u></u>

**ONSTED COMMUNITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2013**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

**Type of Auditors' Report Issued:** **Unqualified**

**Internal Control over Financial Reporting:**

Material weakness(es) identified?	_____	Yes	_____	<u>X</u>	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	_____	<u>X</u>	Yes	_____	No
Noncompliance material to financial statements noted?	_____	Yes	_____	<u>X</u>	No

**FEDERAL AWARDS**

**Internal Control Over Major Programs:**

Material weakness(es) identified?	_____	Yes	_____	<u>X</u>	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	_____	<u>X</u>	None reported

**Type of Auditors' Report Issued on Compliance for Major Program:** **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	Yes	_____	<u>X</u>	No
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**Identification of Major Programs**

<u>CFDA Number</u>	<u>Name of Federal Program/Cluster</u>
10.553, 10.555	Child Nutrition Cluster

**ONSTED COMMUNITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2013**

**SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)**

**Dollar Threshold Used to Distinguish Between Type A and Type B** **\$300,000**

Auditee qualified as low-risk auditee?   X   Yes        No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Finding 2013-1

The District's management prepares the internal interim and annual financial statements. The annual financial statements for the year ended June 30, 2013, required the assistance of the auditors for preparation of its financial statement footnotes in accordance with accounting principles generally accepted in the United States of America. Statement on Auditing Standards No. 115, *Communicating Internal control Related Matters Identified in an Audit* requires written communication when an organization lacks an adequate design of internal control over the preparation of the financial statements footnotes being audited.

Client Response

We are aware of this deficiency and believe it is not cost beneficial to develop this expertise.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

**SECTION IV – PRIOR YEAR FINDINGS**

None.