

Onsted Community Schools
Report on Financial Statements
(with required supplementary and additional information)
Year Ended June 30, 2014



Onsted Community Schools

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Independent Auditor's Report

To the Board of Education
Onsted Community Schools
Onsted, Michigan

Report on the Financial Statements

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, 2014, 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.

P.O. Box 384, 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, 2014, 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 4 through 12 and pages 36 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 October 13, 2014, 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
October 13, 2014

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2014**

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, 2014.

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

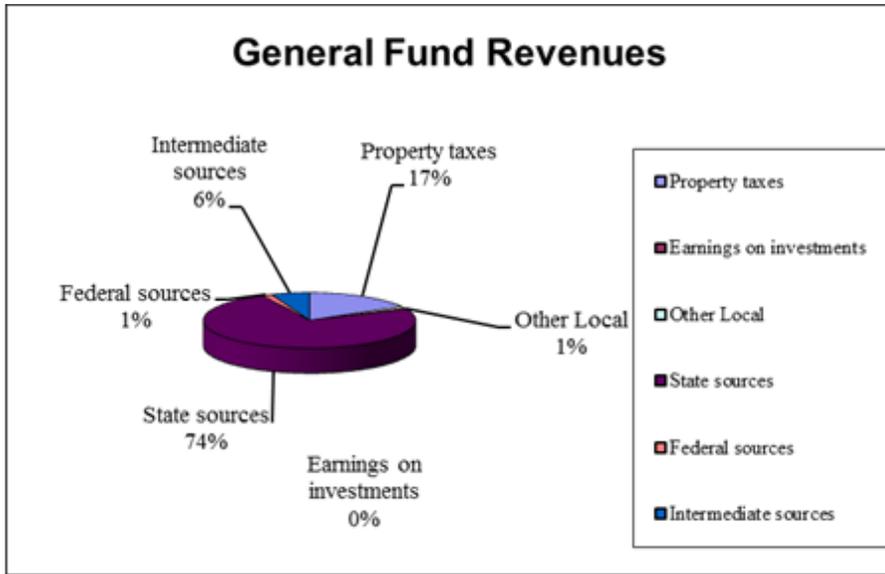
For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available 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, 2014**

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

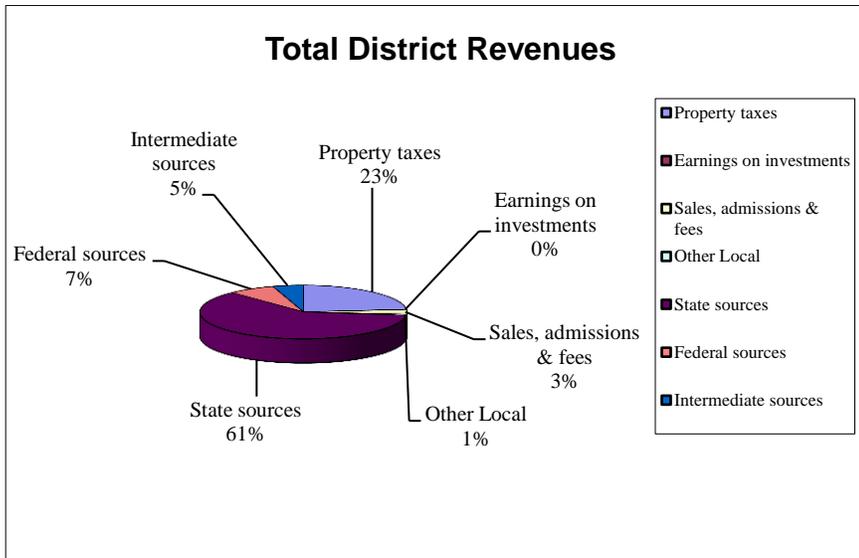
The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of \$7,026 per student (an increase of \$60 from the previous year):



Local revenue increased from the previous year due to increased property taxes. State revenue decreased from the previous year due to loss of students resulting in lower foundation allowance. Federal revenues decreased due to reduced Title I and Title II-A 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, 2014**

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, 2014**

Summary of Net Position

		Governmental Activities	
		2014	2013
Current and other assets		\$ 5,183,163	\$ 5,983,749
Capital assets		28,418,147	29,159,480
	Total assets	33,601,310	35,143,229
Deferred outflow:			
Deferred charge on refunding		272,632	
Long term liabilities outstanding		20,103,160	21,393,369
Other liabilities		2,910,254	2,955,243
	Total liabilities	23,013,414	24,348,612
Net position:			
Invested in capital assets, net of related debt		7,204,136	6,604,410
Restricted for:			
School lunch		848,595	1,043,542
Capital Projects		387,785	501,292
Unrestricted		2,420,012	2,730,685
	Total net position	\$ 10,860,528	\$ 10,879,929

Analysis of Financial Position

During the fiscal year ended June 30, 2014, the District's net position increased by \$65,911. This compares to a \$723,125 increase in net position during the fiscal year ended June 30, 2013. 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, 2014, \$817,944 was recorded for depreciation expense. This compares to \$556,430 for the year ended June 30, 2013.

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2014**

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2014, \$80,350 of expenditures were capitalized and recorded as assets of the District, and there were \$115,358 in deletions. This compares to capitalized expenditures of \$16,721,517 and deletions of \$13,141,504 for the fiscal year ended June 30, 2013. These additions to the District's capital assets will be depreciated over their useful life. The major portion of these capital expenditures was for the purchase of a bus as well as computer equipment and maintenance equipment. Deletions were for two buses and a boiler replacement. Loss on disposal of assets was \$3,739.

The net effect of the new capital assets, the disposal of unusable capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$741,333 for the fiscal year ended June 30, 2014, compared to a decrease of \$494,354 in the last fiscal year.

3. Issuance of Long-Term Debt

In January 2014 the Board of Education announced the successful sale of its 2014 Refunding Bonds in the amount of \$5,315,000. The Bonds were issued for the purpose of refunding the School District's outstanding 2004 Refunding Bonds and to pay the costs of issuing the Bonds. The 2014 Refunding Bonds reduce the School District interest expense approximately \$516,928 for the taxpayers and will occur through lower debt payments over the next 9 years.

The net effect of long-term debt in the 2013-14 school year is an increase to net assets of \$1,341,059 compared to an increase of net assets in 2012-13 of \$1,351,631.

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2014**

Results of Operations

For the fiscal year ended June 30, 2014, the results of operations, on a District-wide basis, were:

		Governmental Activities	
		2014	2013
Program revenues:			
General revenues:			
Property taxes, levied for general purposes		2,088,004	2,000,366
Property taxes, levied for debt service		1,530,160	1,562,615
Investment earnings		(29,777)	(26,770)
State sources-unrestricted		9,073,052	9,237,277
Intermediate sources		738,275	724,860
Other		112,895	70,001
	Total general revenues	13,512,609	13,568,349
Program revenues:			
Charges for services		438,392	421,840
Capital grants		597,722	697,174
Operating grants		811,312	918,073
	Total program revenues	1,847,426	2,037,087
	Total revenues	15,360,035	15,605,436
Expenses:			
Instruction		8,094,587	7,833,413
Support services		4,155,094	4,202,369
Food services		644,781	714,632
Community services		43,408	34,778
Athletics		442,731	430,704
Interest expense		1,095,579	1,109,985
Unallocated depreciation		817,944	556,430
	Total expenses	15,294,124	14,882,311
Change in net position		65,911	723,125
Net position, beginning of year		10,794,617	10,071,492
Net position, end of year		\$ 10,860,528	\$ 10,794,617

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2014**

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 2013 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2014. Property tax revenues for the 2013-14 fiscal year were \$2,088,004 for general purposes.

2. State sources

The State of Michigan provides a \$7,026 per pupil foundation allowance that provides a substantial portion of the District's revenue. In addition, the District received various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year, there was an adjustment made that includes two months of state aid payments that was not received in the fiscal year in which the related expenses occurred.

3. Student Enrollment

The District's blended count, which is used to compute the State Aid allowance, consists of 90% of the fall student count and 10% of the spring student count. For the 2013-14 school year, the District blended count was 1,472.74. This included a loss of 57 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 support staff only. Teachers and administrators received performance pay based on evaluation but no step increases. Health insurance costs increased for teachers, administrators and for support staff, even though some of that cost was offset by insurance caps built into the contracts. Retirement costs increased from 27.37% of payroll to 29.35% of payroll, although a portion of that cost was reimbursed through state aid.

5. Instructional purchases

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

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2014**

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 2014 and June 2014 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 a decrease to fund balance of \$242,566, the actual results of the year show a decrease of \$182,281.

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

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

Revenues: Original estimated budgets for revenues were \$12,583,674 versus the final budget of \$12,651,596. 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 decreased due to a lower student count than originally budgeted, and grant adjustments from the State including Best Practice Incentive, MPSERS cost offset, Technology Infrastructure, and At Risk funding.
- Federal revenues were increased due to revised grant amounts for Title I and Title II-A including carryover, and Title II-B funds via Lenawee ISD.

Intermediate revenues were increased due to Special Education revenue being higher than anticipated.

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2014**

Expenses: The original budget for expenditures was \$13,012,060 versus the final budget figure of \$12,894,162. The main reason for the decrease in expenditures was reduced hourly staff cost due to unpaid snow days, as well as lower substitute teacher costs than budgeted, and less Special Education Haviland Program services than budgeted.

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, 2013, the District had \$29,159,480 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of \$80,350 resulted from the purchase of a bus, technology equipment and maintenance equipment. Decreases of \$115,358 resulted from the deletion of two buses and a replaced boiler. More detail is presented in the notes to the financial statements.

Long-Term Debt -

At June 30, 2014, the District's long-term debt obligations included \$21,778,477 in bonds payable, and \$246,457 in accumulated vested benefits including sick pay leave. More detail is presented in the notes to the financial statements.

Factors Bearing on the District's Future

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

- In 2004, the District implemented the No Child Left Behind Act enacted by the federal government in 2003. Several requirements of this act could significantly increase District costs in 2014 and beyond.
- The State of Michigan has adopted a budget for 2014-15. The District's budget was adopted with an estimated foundation grant of \$7,251 per student based on information known at the time, and an estimated blended student count of 1,425. 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, 2014 and 2013

	Governmental Activities	
	2014	2013
Assets:		
Cash and cash equivalents	\$ 1,418,951	\$ 1,597,966
Investments	1,810,051	2,011,049
Accounts receivable	122,996	118,236
Due from other governmental units	1,824,903	1,936,088
Inventory	6,262	13,699
Noncurrent assets:		
Capital assets	39,833,984	39,868,992
Less: Accumulated depreciation	(11,415,837)	(10,709,512)
Total non current assets	<u>28,418,147</u>	<u>29,159,480</u>
Total assets	<u><u>33,601,310</u></u>	<u><u>34,836,518</u></u>
Deferred outflows of resources:		
Deferred charge on refunding	272,632	306,711
Liabilities:		
Accounts payable and accrued expenses	258,107	195,025
Accrued salaries and related items	1,051,353	1,115,936
Interest payable	48,363	53,796
Unearned revenue	89,765	86,757
Current portion of long term obligations	1,350,000	1,385,000
Current portion of compensated absences	7,308	8,254
Noncurrent liabilities:		
Noncurrent portion of long term obligations	19,428,477	21,208,477
Add: Unearned premium on bonds net of accumulated amortization	549,299	46,905
Less: Unearned discount on bonds net of accumulated amortization	(113,765)	(85,312)
Compensated absences	239,149	223,299
Total liabilities	23,013,414	24,348,612
Net position:		
Invested in capital assets net of related debt	7,204,136	6,604,410
Restricted for:		
Debt service	848,595	1,043,542
Capital projects	387,785	501,292
Unrestricted	<u>2,420,012</u>	<u>2,730,685</u>
Total net position	<u><u>\$ 10,860,528</u></u>	<u><u>\$ 10,879,929</u></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, 2014
With Comparative Totals for the Year Ended June 30, 2013**

<u>Functions/programs</u>	<u>Program Revenues</u>				<u>Total Governmental Activities</u>	
	<u>Expenses</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>2014</u>	<u>2013</u>
Governmental activities:						
Instruction	\$ 8,094,587	\$ 9,089		\$ 287,775	\$ (7,797,723)	\$ (7,444,582)
Support services	4,155,094	61,303	597,722	126,093	(3,369,976)	(3,352,241)
Food services	644,781	291,927		385,768	32,914	(21,985)
Community services	43,408	15,583		11,676	(16,149)	(17,092)
Athletics	442,731	60,490			(382,241)	(342,909)
Interest on long term debt including amortization of discount, premium and bond issuance costs	1,095,579				(1,095,579)	(1,109,985)
Unallocated depreciation	817,944				(817,944)	(556,430)
Total governmental activities	15,294,124	438,392	597,722	811,312	(13,446,698)	(12,845,224)
General Revenues:						
Property taxes, levied for general purposes					2,088,004	2,000,366
Property taxes, levied for debt service					1,530,160	1,562,615
Investment earnings					(29,777)	(26,770)
State sources					9,073,052	9,237,277
Intermediate sources					738,275	724,860
Other					112,895	70,001
Total general revenues					13,512,609	13,568,349
Change in net position					65,911	723,125
Net position, beginning of year					10,794,617	10,071,492
Net position, end of year					\$ 10,860,528	\$ 10,794,617

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

Onsted Community Schools

Balance Sheet

Governmental Funds

June 30, 2014

With Comparative Totals for June 30, 2013

	General Fund	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Assets:					
Cash and cash equivalents	\$ 177,747	\$848,595	\$ 392,609	\$ 1,418,951	\$ 1,597,966
Investments	1,786,172		23,879	1,810,051	2,011,049
Accounts receivable	32,958		273	33,231	31,479
Due from other governmental units	1,800,247		24,656	1,824,903	1,936,088
Due from other funds				-	100,000
Inventory			6,262	6,262	13,699
	<hr/>		<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 3,797,124</u>	<u>\$ 848,595</u>	<u>\$ 447,679</u>	<u>\$ 5,093,398</u>	<u>\$ 5,690,281</u>
Liabilities:					
Accounts payable and accrued expenditures	246,400		11,707	258,107	195,025
Accrued salaries and related items	1,051,353			1,051,353	1,115,936
Due to other funds				-	100,000
Unearned revenue	99,405		5,953	105,358	110,475
	<hr/>		<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,397,158</u>	<u>-</u>	<u>17,660</u>	<u>1,414,818</u>	<u>1,521,436</u>
Deferred inflows of resources:					
Unavailable revenue	89,765			89,765	86,757
	<hr/>			<hr/>	<hr/>
Fund balances:					
Nonspendable			6,262	6,262	13,699
Restricted for:					
School lunch			34,524	34,524	29,544
Debt service		848,595		848,595	1,043,542
Capital projects			387,785	387,785	501,292
Assigned			1,448	1,448	1,529
Unassigned	2,310,201			2,310,201	2,492,482
	<hr/>		<hr/>	<hr/>	<hr/>
Total fund balance	<u>2,310,201</u>	<u>848,595</u>	<u>430,019</u>	<u>3,588,815</u>	<u>4,082,088</u>
	<hr/>		<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows & fund balances	<u>\$ 3,797,124</u>	<u>\$ 848,595</u>	<u>\$ 447,679</u>	<u>\$ 5,093,398</u>	<u>\$ 5,690,281</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Total governmental fund balances	\$ 3,588,815	\$ 4,082,088
Amount reported for governmental activities in the statement of net position are different because:		
Deferred charge on refunding	272,632	306,711
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	39,833,984	39,868,992
The accumulated depreciation is	<u>(11,415,837)</u>	<u>(10,709,512)</u>
	28,418,147	29,159,480
Revenue not recorded in the funds due to not being collected until after September 1:		
Deferred inflows-Special education payment from LISD	89,765	86,757
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(20,778,477)	(22,593,477)
Unearned premium on bonds net of amortization	(549,299)	(46,905)
Unearned discount on bonds net of amortization	113,765	85,312
Compensated absences	(246,457)	(231,553)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid	<u>(48,363)</u>	<u>(53,796)</u>
Net position of governmental activities	<u><u>\$ 10,860,528</u></u>	<u><u>\$ 10,794,617</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, 2014
With Comparative Totals for the Year Ended June 30, 2013**

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds	
				2014	2013
Revenues:					
Local sources:					
Property taxes	\$ 2,088,004	\$ 1,530,160	\$	\$ 3,618,164	\$ 3,562,981
Investment earnings	1,023	2,224	1,055	4,302	7,310
Sales, admissions and fees	130,882		307,510	438,392	421,840
Other	66,810	5,115	25,209	97,134	70,491
Total local sources	2,286,719	1,537,499	333,774	4,157,992	4,062,622
State sources	9,312,693		34,468	9,347,161	9,572,484
Federal sources	185,903	597,722	351,300	1,134,925	1,253,050
Intermediate sources	735,267			735,267	734,550
Total revenues	12,520,582	2,135,221	719,542	15,375,345	15,622,706
Expenditures:					
Current:					
Instruction	8,070,135			8,070,135	7,841,205
Support services	4,090,447			4,090,447	3,992,147
Food service activities			646,761	646,761	714,084
Community service activities	10,644		32,764	43,408	34,778
Athletic activities	442,721			442,721	430,685
Other				-	202,065
Capital outlay			80,350	80,350	4,136,443
Debt service:					
Interest	52,306	1,014,263	34,212	1,100,781	1,114,853
Other		69,615	2,610	72,225	2,125
Total expenditures	12,666,253	1,083,878	796,697	14,546,828	18,468,385
Excess (deficiency) of revenues over (under) expenditures	(145,671)	1,051,343	(77,155)	828,517	(2,845,679)
Other financing sources (uses):					
Prior year expense				-	-
Sale of school property	19,500			19,500	-
Proceeds from bond issuance		5,788,710		5,788,710	-
Redemption of principal	(75,000)	(7,035,000)	(20,000)	(7,130,000)	(1,351,862)
Prior year income				-	-
Unrealized gain (loss) on investments				-	-
Transfers in	40,820		21,930	62,750	167,411
Transfers out	(21,930)		(40,820)	(62,750)	(167,411)
Total other financing sources (uses)	(36,610)	(1,246,290)	(38,890)	(1,321,790)	(1,351,862)
Change in fund balances	(182,281)	(194,947)	(116,045)	(493,273)	(4,197,541)
Fund balances:					
Beginning of year	2,492,482	1,043,542	546,064	4,082,088	8,279,629
End of year	<u>\$ 2,310,201</u>	<u>\$ 848,595</u>	<u>\$ 430,019</u>	<u>\$ 3,588,815</u>	<u>\$ 4,082,088</u>

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, 2014 and 2013

	2014	2013
Change in fund balances total governmental funds	\$ (493,273)	\$ (4,197,541)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	(817,944)	(556,430)
Loss on disposal of assets	(3,739)	
Capital outlay	80,350	4,136,443
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:		
Accrued interest payable, beginning of year	53,796	58,895
Accrued interest payable, end of year	(48,363)	(53,796)
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.		
	1,306,980	1,317,551
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:		
Deferred inflows-Unearned revenue, end of year	89,765	86,757
Deferred inflows-Unearned revenue, beginning of year	(86,757)	(69,947)
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	231,553	232,746
Accrued compensated absences, end of year	(246,457)	(231,553)
Change in net position of governmental activities	\$ 65,911	\$ 723,125

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, 2014 and 2013

		Agency Fund	
		2014	2013
ASSETS:			
Cash and cash equivalents		\$ 83,376	\$ 86,666
Total assets		83,376	86,666
 LIABILITIES:			
Due to student groups		83,376	86,666
Total liabilities		\$ 83,376	\$ 86,666

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

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

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, 2014

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 allocates indirect costs based on the state formula in the School Lunch Fund.

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, 2014

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, 2014, the foundation allowance was based on pupil membership counts taken in February and September of 2013.

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

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 1308 to August 2010. Thus, the unpaid portion at June 30th 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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2014, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Residence Exemption	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
Principal and Non-Principal Residence Exemption	1.950
Principal and Non-Principal Residence Exemption	1.690
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. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

1. Other Accounting Policies (Continued)

5. Deferred outflows/inflows of resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source: receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. 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.

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.

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 2. Stewardship, Compliance and Accountability (Continued)

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.
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, 2014. The District does not consider these amendments to be significant.
7. There were no functions exceeding budget on the General Fund and Debt Fund Budgetary Comparison Schedule. Total expenditures did not exceed the amount appropriated in any fund.

Note 3. Deposits and Investments

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$1,128,378 of the District's bank balance of \$1,628,378 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 1,128,378</u>
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Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 3. Deposits and Investments (Continued)

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, 2013 was 51 days.

The District's investments are as follows:

	Weighted Average Maturity	Fair Value	Standard & Poor's Rating
Michigan Liquid Asset Fund:	51.00		AAAm
General and School Lunch Fund		<u>\$ 1,810,051</u>	*
	*S&P Rating	Percentage of Portfolio	
	AA+	21.0%	
	A-1+	26.6%	
	A-1	45.5%	
	Exempt	4.4%	
	Not rated	2.5%	

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 4. Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Assets not being depreciated				
Land	\$ 176,792			\$ 176,792
Other capital assets:				
Land improvements	539,948			539,948
Buildings and additions	36,957,614			36,957,614
Equipment	663,232	8,500	6,062	665,670
Vehicles other than buses	64,182			64,182
Buses	1,467,224	71,850	109,296	1,429,778
Depreciable capital assets	39,692,200	80,350	115,358	39,657,192
Less: accumulated depreciation	10,709,512	817,944	111,619	11,415,837
Net depreciable capital assets	28,982,688	(737,594)	3,739	28,241,355
Net capital assets	<u>\$ 29,159,480</u>	<u>\$ (737,594)</u>	<u>\$ 3,739</u>	<u>\$ 28,418,147</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, 2014 and 2013 amounted to \$817,944 and \$556,430, 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, 2014

Note 5. Long-Term Debt

The School District has authorized refunding bonds, dated February 19, 2014, for the purpose of refunding a portion of a prior bond issue of the School District. The bonds were issued for \$5,315,000 at an interest rate ranging from 3% to 4%. The first scheduled payment is May 2015.

A schedule of the 2014 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total	am
2015	3.00%	\$ 545,000	\$ 120,483	\$ 120,483	\$ 785,966	
2016	4.00%	595,000	108,083	108,083	811,166	
2017	4.00%	620,000	95,183	95,183	810,366	
2018	4.00%	650,000	81,448	81,448	812,896	
2019	4.00%	680,000	66,923	66,923	813,846	
2020	4.00%	710,000	51,593	51,593	813,186	
2021	4.00%	740,000	35,443	35,443	810,886	
2022	4.00%	775,000	18,260	18,260	811,520	
		<u>\$ 5,315,000</u>	<u>\$ 577,416</u>	<u>\$ 577,416</u>	<u>\$ 6,469,832</u>	

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, 2014 was \$28,000.

A schedule of the 2011 bond issue is as follows:

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

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 5. Long-Term Debt (Continued)

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, 2014 was \$722,175.

A schedule of the 2010 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
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>\$ 13,100,000</u>	<u>\$ 2,989,550</u>	<u>\$ 2,989,550</u>	<u>\$ 17,699,800</u>

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, 2014 was \$57,106.

A schedule of the 2008 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
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>\$ 1,125,000</u>	<u>\$ 139,566</u>	<u>\$ 139,566</u>	<u>\$ 1,404,131</u>

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 5. Long-Term Debt (Continued)

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, 2014 was \$4,350.

A schedule of the 2007 bonds is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2015	4.35%	\$ 20,000	\$ 1,305	\$ 1,305	\$ 22,610
2016	4.35%	18,477	870	870	20,217
		<u>\$ 38,477</u>	<u>\$ 2,175</u>	<u>\$ 2,175</u>	<u>\$ 42,827</u>

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, 2014.

	Total Bonds	Compensated Absences	Total
Balance July 1, 2013	\$ 22,593,477	\$ 231,553	\$ 22,825,030
Additions	5,315,000	23,157	5,338,157
Deletions	<u>(7,130,000)</u>	<u>(8,253)</u>	<u>(7,138,253)</u>
Balance June 30, 2014	20,778,477	246,457	21,024,934
Less: current portion	<u>1,350,000</u>	<u>7,308</u>	<u>1,357,308</u>
Total due after one year	<u>\$ 19,428,477</u>	<u>\$ 239,149</u>	<u>\$ 19,667,626</u>

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 5. Long-Term Debt (Continued)

Debt Service requirements of governmental activities at June 30, 2014 were as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 1,350,000	\$ 976,241	\$ 2,326,241
2016	1,408,477	924,337	2,332,814
2017	1,425,000	866,629	2,291,629
2018	1,460,000	804,946	2,264,946
2019	1,505,000	743,021	2,248,021
2020-2024	7,930,000	2,575,917	10,505,917
2025-2028	5,700,000	573,000	6,273,000
	<u>\$20,778,477</u>	<u>\$ 7,464,090</u>	<u>\$ 28,242,567</u>

Note 6. Interfund Transfers

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

A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfers Out
General	\$ 40,820	General	\$ 21,930
Nonmajor	21,930	Nonmajor	40,820
Totals	<u>\$ 62,750</u>		<u>\$ 62,750</u>

Note 7. Employee Retirement System Defined Benefit Plan

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan governed by the State of Michigan. The MPERS provides retirement survivor benefits and postretirement benefits for health, dental, and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended.

Onsted Community Schools

Notes to Financial Statements

June 30, 2014

Note 7. Employee Retirement System Defined Benefit Plan (Continued)

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 1st 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 benefit structure categorizes a member's retirement plan type, which varies based on available benefits, eligibility requirements, contribution rates and pension factors. 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, 2014, 2013, and 2012, were \$1,668,351, \$1,647,719, and \$1,658,693, 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, 2014

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, 2014. 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, 2014 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 2014, extending to June 2017. The District is also obligated by a monthly maintenance agreement.

A schedule of payments follows:

Year ended <u>June 30,</u>	MT Business <u>Technologies, Inc.</u>
2015	\$ 52,512
2016	52,512
2017	<u>52,512</u>
	<u>\$ 157,536</u>

The rental costs, including maintenance, for the years ended June 30, 2014 and 2013 were \$96,964 and \$92,997, respectively.

Note 11. Net Position Restricted By Enabling Legislation

Net Position

The government-wide statement of net position reports \$1236,380 of restricted net position at June 30, 2014, 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, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources	\$2,175,133	\$ 2,287,099	\$2,286,719	\$ (380)
State sources	9,522,448	9,362,216	9,312,693	(49,523)
Federal sources	187,193	204,125	185,903	(18,222)
Intermediate sources	698,900	737,836	735,267	(2,569)
Total revenues	<u>12,583,674</u>	<u>12,591,276</u>	<u>12,520,582</u>	<u>(70,694)</u>
EXPENDITURES:				
Instruction:				
Basic programs	6,796,657	6,624,206	6,578,072	46,134
Added needs	1,529,340	1,500,433	1,492,063	8,370
Total instruction	<u>8,325,997</u>	<u>8,124,639</u>	<u>8,070,135</u>	<u>54,504</u>
Support services:				
Pupil	635,632	641,510	640,964	546
Instructional staff	261,512	264,240	251,326	12,914
General administration	360,993	355,840	341,633	14,207
School administration	711,767	712,704	709,372	3,332
Business	179,734	187,058	187,012	46
Operation & maintenance	1,161,148	1,207,992	1,189,597	18,395
Transportation	592,346	580,050	571,829	8,221
Central	204,845	205,474	198,714	6,760
Athletic activities	425,000	443,608	442,721	887
Community services	4,000	21,810	10,644	11,166
Total support services	<u>4,536,977</u>	<u>4,620,286</u>	<u>4,543,812</u>	<u>76,474</u>
Debt service:				
Interest	53,000	52,307	52,306	1
Total debt service	<u>53,000</u>	<u>52,307</u>	<u>52,306</u>	<u>1</u>
Total expenditures	<u>12,915,974</u>	<u>12,797,232</u>	<u>12,666,253</u>	<u>130,979</u>
Excess (deficiency) of revenues over (under) expenditures	(332,300)	(205,956)	(145,671)	60,285
Other financing sources (uses):				
Sale of school property		19,500	19,500	-
Redemption of principal	(75,000)	(75,000)	(75,000)	-
Transfers in		40,820	40,820	-
Transfers out	(21,086)	(21,930)	(21,930)	-
Total other financing sources (uses)	<u>(96,086)</u>	<u>(36,610)</u>	<u>(36,610)</u>	<u>-</u>
Change in fund balance	(428,386)	(242,566)	(182,281)	60,285
Fund balances:				
Beginning of year			<u>2,492,482</u>	
End of year			<u><u>\$2,310,201</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, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 1,666,300	\$ 1,541,303	\$ 1,537,499	\$ (3,804)
Federal sources		597,723	597,722	(1)
Total revenues	1,666,300	2,139,026	2,135,221	(3,805)
Expenditures:				
Interest	370,046	1,037,008	1,014,263	22,745
Other	1,725	3,160	69,615	(66,455)
Total expenditures	371,771	1,040,168	1,083,878	(43,710)
Excess (deficiency) of revenues over (under) expenditures	1,294,529	1,098,858	1,051,343	(47,515)
Other financing sources (uses):				
Proceeds from bond issuance			5,788,710	5,788,710
Redemption of principal	(1,040,000)	(1,290,000)	(7,035,000)	(5,745,000)
Total other financing sources (uses)	(1,040,000)	(1,290,000)	(1,246,290)	43,710
Change in fund balance	254,529	(191,142)	(194,947)	(3,805)
Fund balances:				
Beginning of year			1,043,542	
End of year			848,595	

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

Other Additional Information

Onsted Community Schools

Combining Balance Sheet

Nonmajor Funds

June 30, 2014

With Comparative Totals for June 30, 2013

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds	
			2014	2013
Assets:				
Cash and cash equivalents	\$ 4,824	\$ 387,785	\$ 392,609	\$ 411,385
Investments	23,879		23,879	25,991
Due from other governmental units	24,656		24,656	4,570
Due from other funds			-	100,000
Inventory	6,262		6,262	13,699
			<hr/>	<hr/>
Total assets	<u>59,894</u>	<u>387,785</u>	<u>447,679</u>	<u>557,866</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	11,707		11,707	5,912
Unearned revenue	5,953		5,953	5,890
			<hr/>	<hr/>
Total liabilities	<u>17,660</u>	<u>-</u>	<u>17,660</u>	<u>11,802</u>
Fund Balances:				
Reserved for:				
Nonspendable	6,262		6,262	13,699
Restricted	34,524	387,785	422,309	530,836
Assigned	1,448		1,448	1,529
			<hr/>	<hr/>
Total fund balances	<u>42,234</u>	<u>387,785</u>	<u>430,019</u>	<u>546,064</u>
			<hr/>	<hr/>
Total liabilities & fund balances	<u>\$ 59,894</u>	<u>\$ 387,785</u>	<u>\$ 447,679</u>	<u>\$ 557,866</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 Funds

**For the Year Ended June 30, 2014
With Comparative Totals for the Year Ended June 30, 2013**

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds	
			2014	2013
REVENUES:				
Local sources:				
Investment earnings	\$ -	\$ 1,055	\$ 1,055	\$ 3,234
Sales, admissions and fees	307,510		307,510	311,686
Other	2,599	22,610	25,209	31,721
Total local sources	310,109	23,665	333,774	346,641
State sources	34,468		34,468	38,744
Federal sources	351,300		351,300	356,703
Intermediate sources			-	26,500
Total revenues	695,877	23,665	719,542	768,588
EXPENDITURES:				
Food service activities	646,761		646,761	714,084
Community service activities	32,764		32,764	31,578
Other			-	202,065
Capital outlay		80,350	80,350	4,136,443
Debt service:				-
Interest		34,212	34,212	3,480
Other		2,610	2,610	-
Total expenditures	679,525	117,172	796,697	5,087,650
Excess (deficiency) of revenues over (under) expenditures	16,352	(93,507)	(77,155)	(4,319,062)
Other financing sources (uses):				
Redemption of principal		(20,000)	(20,000)	(20,000)
Transfers in	21,930		21,930	121,780
Transfers out	(40,820)		(40,820)	(45,631)
Total other financing sources (uses)	(18,890)	(20,000)	(38,890)	56,149
Change in fund balances	(2,538)	(113,507)	(116,045)	(4,262,913)
Fund balances:				
Beginning of year	44,772	501,292	546,064	4,808,977
End of year	<u>\$ 42,234</u>	<u>\$ 387,785</u>	<u>\$ 430,019</u>	<u>\$ 546,064</u>

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

Onsted Community Schools

Combining Balance Sheet

Special Revenue Funds

June 30, 2014

With Comparative Totals for June 30, 2013

	School Lunch	Community Service	Total Special Revenue Funds	
			2014	2013
Assets:				
Cash and cash equivalents	\$ 3,376	\$ 1,448	\$ 4,824	\$ 10,093
Investments	23,879		23,879	25,991
Accounts receivable	273		273	2,221
Due from other governmental units	24,656		24,656	4,570
Inventory	6,262		6,262	13,699
	<hr/>		<hr/>	<hr/>
Total assets	<u>58,446</u>	<u>1,448</u>	<u>59,894</u>	<u>56,574</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	11,707		11,707	5,912
Unearned revenue	5,953		5,953	5,890
	<hr/>		<hr/>	<hr/>
Total liabilities	<u>17,660</u>	<u>-</u>	<u>17,660</u>	<u>11,802</u>
Fund Balances:				
Nonspendable	6,262		6,262	13,699
Restricted	34,524		34,524	29,544
Assigned		1,448	1,448	1,529
	<hr/>		<hr/>	<hr/>
Total fund balances	<u>40,786</u>	<u>1,448</u>	<u>42,234</u>	<u>44,772</u>
	<hr/>		<hr/>	<hr/>
Total liabilities & fund balances	<u>\$ 58,446</u>	<u>\$ 1,448</u>	<u>\$ 59,894</u>	<u>\$ 56,574</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**

Special Revenue Funds

For the Year Ended June 30, 2014

With Comparative Totals for the Year Ended June 30, 2013

	School Lunch	Community Service	Total Special Revenue Funds	
			2014	2013
REVENUES:				
Local sources:				
Sales, admissions and fees	\$ 291,927	\$ 15,583	\$ 307,510	\$ 311,686
Other	2,599		2,599	4,731
Total local sources	294,526	15,583	310,109	316,417
State sources	34,468		34,468	38,744
Federal sources	351,300		351,300	356,703
Intermediate sources			-	26,500
Total revenues	680,294	15,583	695,877	738,364
EXPENDITURES:				
Cost of goods sold - net	312,697		312,697	336,326
Salaries and wages	202,255	22,014	224,269	245,588
Employee benefits	89,371	7,957	97,328	107,803
Contracted services	11,727	1,843	13,570	18,836
Travel, workshops and conferences	209		209	1,159
Materials and supplies	30,502	950	31,452	35,950
Capital outlay			-	-
Total expenditures	646,761	32,764	679,525	745,662
Excess (deficiency) of revenues over (under) expenditures	33,533	(17,181)	16,352	(7,298)
Other financing sources (uses):				
Transfers in	4,830	17,100	21,930	21,780
Transfers out	(40,820)		(40,820)	(45,631)
Total other financing sources (uses)	(35,990)	17,100	(18,890)	(23,851)
Change in fund balances	(2,457)	(81)	(2,538)	(31,149)
Fund balances:				
Beginning of year	43,243	1,529	44,772	75,921
End of year	<u>\$ 40,786</u>	<u>\$ 1,448</u>	<u>\$ 42,234</u>	<u>\$ 44,772</u>

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



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

To the Board of Education
Onsted Community Schools
Onsted, Michigan

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Onsted Community Schools' basic financial statements and have issued my report thereon dated October 13, 2014.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Onsted Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Onsted Community School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Onsted Community Schools' internal control.

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

My consideration of internal control was for the limited purpose described in first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be a significant deficiency (2014-1).

Your partner in financial statement auditing and all things accounting.

P.O. Box 384, Adrian, Michigan 49221 | phone: 517.945.3312 - meredithamatthews@gmail.com

To the Board of Education
Onsted Community Schools

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*, though I feel it is prudent to report the following other matter, which is described as:

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 Findings

Onsted Community Schools' response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Onsted Community Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meredith A. Matthews, CPA

Adrian, Michigan
October 13, 2014



Independent Auditor's Report on Internal Control for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Education
Onsted Community Schools
Onsted, Michigan

Report on Compliance for each Major Federal Program

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, 2014. Onsted Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Onsted Community Schools' major federal programs based on my audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, my audit does not provide a legal determination of Onsted Community Schools' compliance.

Your partner in financial statement auditing and all things accounting.

P.O. Box 384, Adrian, Michigan 49221 | phone: 517.945.3312 - meredithamatthews@gmail.com

To the Board of Education
Onsted Community Schools

Opinion on each Major Federal Program

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, 2014.

Report on Internal Control over Compliance

Management of Onsted Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Onsted Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Meredith A. Matthews, CPA

Adrian, Michigan
October 13, 2014

Onsted Community Schools

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2013	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts
U.S. Department of Agriculture						
Passed Through MDE						
Child Nutrition Cluster*						
School Breakfast Program	10.553	\$ 71,890			\$ 71,890	\$ 71,890
National School Lunch Program						
Cash	10.555	231,616			231,616	231,616
Entitlement Commodities		47,794			47,794	47,794
Total National School Lunch Program		279,410	-	-	279,410	279,410
Total Child Nutrition Cluster		351,300	-	-	351,300	351,300
Total U.S. Department of Agriculture		\$ 351,300	\$ -	\$ -	\$ 351,300	\$ 351,300
U.S. Department of Education						
Passed through M.D.E.						
Title I, Part A						
1315301213	84.010	\$ 168,946	\$ 18,019	\$ 171,929		\$ 9,341
1415301314		145,201			132,458	120,418
Total Title I, Part A		314,147	18,019	171,929	132,458	129,759
Title II Part A						
1305201213	84.367	52,917	1,806	58,780		429
1405201314		102,503			35,657	32,748
Total Title II Part A		155,420	1,806	58,780	35,657	33,177
Total U.S. Department of Education		\$ 469,567	\$ 19,825	\$ 230,709	\$ 168,115	\$ 162,936
Total Passed through MDE		\$ 820,867	\$ 19,825	\$ 230,709	\$ 519,415	\$ 514,236

Onsted Community Schools

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2013	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2014
Federal Grantor Pass Through Other Pass through - Lenawee Intermediate School District (LISD) Transition Grant 70490/TS	84.027	89			89	89	-
Title II Part B	84.366B	9,239			9,239	9,239	
Medical Assistance Program 1314	93.778	8,460			8,460	8,460	-
Total Passed Through LISD		17,788	-	-	17,788	17,788	-
Total Federal Financial Assistance		\$ 838,655	\$ 19,825	\$ 230,709	\$ 537,203	\$ 532,024	\$ 14,949

Onsted Community Schools

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

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 2013-14

Current year receipts per Schedule of Expenditures of Federal Awards	\$ 532,024
Less: Commodities	(47,794)
Amount passed through LISD	<u>(17,788)</u>
Total Grant Auditor Reports per the State of Michigan	<u><u>\$ 466,442</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	\$ 537,203
Federal tax credit on QSCB bonds	<u>597,722</u>
Federal revenues per fund financial statements	<u><u>\$ 1,134,925</u></u>

Onsted Community Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditors' Report Issued:

Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified?	_____	Yes	_____	No
			<u> X </u>	
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	_____	No
			<u> X </u>	
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:

Unmodified

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

Identification of Major Programs

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

Onsted Community Schools
Schedule Of Findings And Questioned Costs
For the Year Ended June 30, 2014

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 2014-1

The District's management prepares the internal interim and annual financial statements. The annual financial statements for the year ended June 30, 2014, 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.