Onsted Community Schools

Report on Financial Statements
(with required supplementary and additional information)
Year Ended June 30, 2015

Onsted Community Schools

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

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, 2015, 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, 2015, 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.

Report on Summarized Comparative Information

I have previously audited Onsted Community Schools' 2014 financial statements, and I expressed on unmodified audit opinion on those audited financial statements in my report dated October 13, 2014. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of net pension liability and schedule of contributions on pages 4 through 12 and pages 47 through 51, 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 19, 2015, 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 19, 2015

Onsted Community Schools
Management's Discussion and Analysis
June 30, 2015

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, 2015.

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

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

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

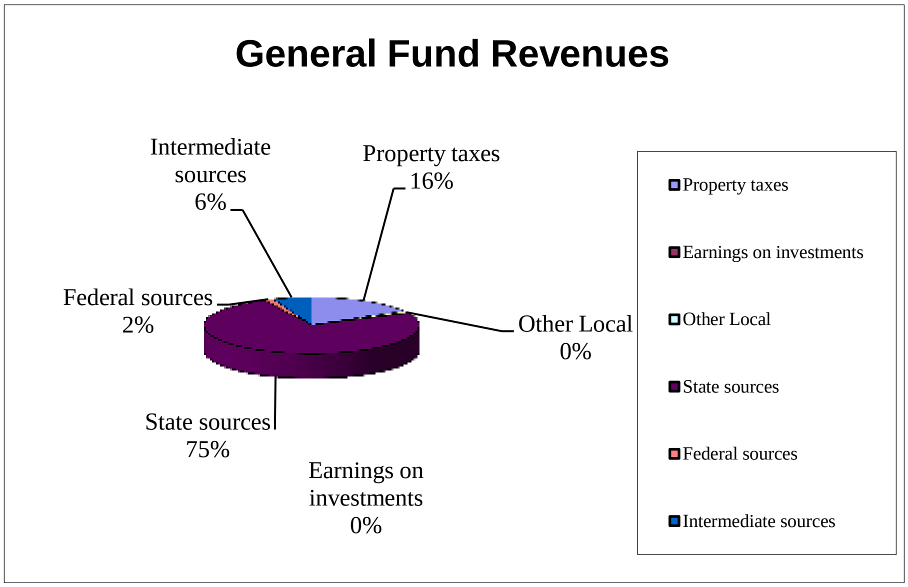
Fund Financial Statements

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

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

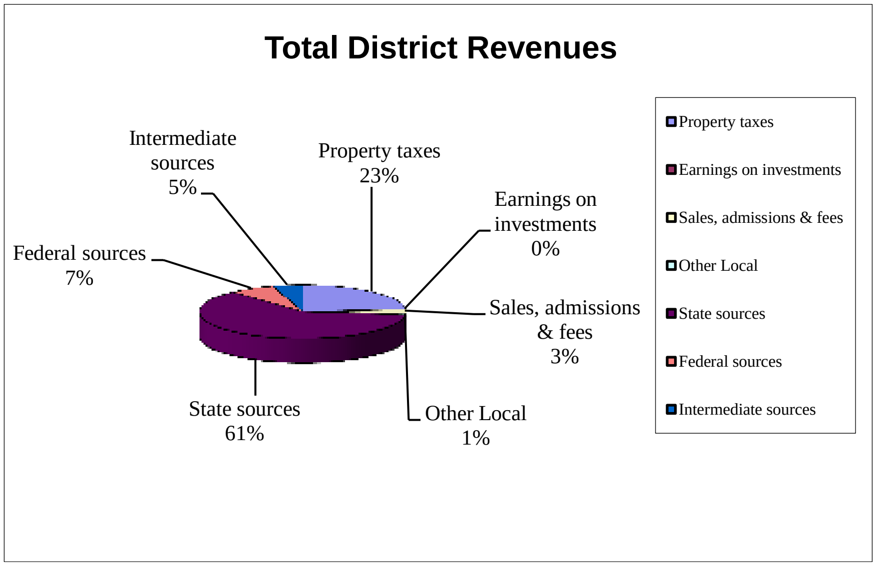
In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures.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

The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of $7,126 per student (an increase of $100 from the previous year):



Local revenue increased from the previous year due to increased property taxes. State revenue increased from the previous year due to changes in state funding of retirement stabilization. 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.

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



Government-wide Financial Statements

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

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

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

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

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

Summary of Net Position

	Governmental Activities 2015	Governmental Activities 2014
Current and other assets	$ 4,669,332	$ 5,183,163
Capital assets	27,615,313	28,418,147
Total assets	32,284,645	33,601,310
Deferred outflows:		
Deferred charge on refunding	238,553	272,632
Pension expense	1,937,165	
Total assets and deferred outflows of resources	34,460,363	33,873,942
Long term liabilities outstanding	36,247,967	20,103,160
Other liabilities	3,022,380	2,910,254
Total liabilities	39,270,347	23,013,414
Deferred inflows of resources	1,948,239	
Total liabilities and deferred inflows of resources	41,218,586	23,013,414
Net position:		
Invested in capital assets, net of related debt	7,810,287	7,204,136
Restricted for:		
School lunch	788,983	848,595
Capital Projects	258,358	387,785
Unrestricted	(15,615,851)	2,420,012
Total net position	$ (6,758,223)	$ 10,860,528

Analysis of Financial Position

During the fiscal year ended June 30, 2015, the District's net position increased by $1,129,043. This compares to a $65,911 increase in net position during the fiscal year ended June 30, 2014. Significant factors affecting net assets 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, 2015, $825,299 was recorded for depreciation expense. This compares to $817,944 for the year ended June 30, 2014.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2015, $22,465 of expenditures were capitalized and recorded as assets of the District, and there were deletions of $482,463 of fully depreciated assets. This compares to capitalized expenditures of $80,350 and deletions of $115,358 for the fiscal year ended June 30, 2014. 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 used bus, treadmills for the Fitness Center and computer equipment.

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 $802,834 for the fiscal year ended June 30, 2015.

3. Net Pension Liability

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

Proportionate share is based on each district's historical pension contributions to the system and is based on the MPSERS plan fiscal year (October 1 – September 30). Onsted's share of total pension liability for the state is 0.08001% and amounts to $17,623,084 as of the end of the fiscal year. This amount is included in "long term liabilities outstanding" on the government-wide statement and puts the district in a negative position for total net assets. Onsted's proportionate share of pension expense is $1,427,519 as of the end of the fiscal year.

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

The increase in net position for the year ended June 30, 2015 was due, in a large part, to the decrease in net pension liability ($1,124,710), from previous to current year. The changes in net pension liability from year to year affect pension expense in the government wide financial statements.

Results of Operations

For the fiscal year ended June 30, 2015, the results of operations, on a District-wide basis, were:

	Governmental Activities	
	2015	**2014**
Program revenues:		
General revenues:		
Property taxes, levied for general purposes	2,110,967	2,088,004
Property taxes, levied for debt service	1,577,086	1,530,160
Investment earnings	(30,888)	(29,777)
State sources-unrestricted	9,393,778	9,073,052
Intermediate sources	744,191	738,275
Other	95,086	112,895
Total general revenues	13,890,220	13,512,609
Program revenues:		
Charges for services	422,289	438,392
Capital grants	584,626	597,722
Operating grants	783,982	811,312
Total program revenues	1,790,897	1,847,426
Total revenues	15,681,117	15,360,035
Expenses:		
Instruction	8,485,165	8,094,587
Support services	3,113,328	4,155,094
Food services	571,887	644,781
Community services	48,821	43,408
Athletics	436,498	442,731
Interest expense	1,071,076	1,095,579
Unallocated depreciation	825,299	817,944
Total expenses	14,552,074	15,294,124
Change in net position	1,129,043	65,911
Net position, beginning of year	(7,887,266)	10,794,617
Net position, end of year	$ (6,758,223)	$ 10,860,528

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 2014 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2015. Property tax revenues for the 2014-15 fiscal year were $2,110,967 for general purposes.

2. State sources

The State of Michigan provides a $7,126 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 2014-15 school year, the District blended count was 1,435.30. This included a loss of 37 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 on Step 4 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 29.35% of payroll to 33.41% of payroll, although a portion of that cost was reimbursed through state aid.

5. Instructional purchases

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

6. Operations and maintenance

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

General Fund Budgetary Highlights

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

- Changes made in January 2015 and June 2015 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 $380,281, the actual results of the year show a decrease of $313,767.

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 $12,703,414 versus the final budget of $12,927,872. Major components of revenue and their original versus final projections are discussed below.

- Property tax revenues increased due to property value changes.
- State Aid was increased due to grant adjustments from the State including Best Practice Incentive, MPSERS cost offset, Technology Readiness 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.

Expenses: The original budget for expenditures was $13,291,565 versus the final budget figure of $13,308,153. The main reason for the increase in expenditures was more 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, 2014, the District had $28,418,147 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of $22,465 resulted from the purchase of a used bus, technology equipment and Fitness Center equipment. There were $482,463 in deletions recorded. More detail is presented in the notes to the financial statements.

Long-Term Debt -

At June 30, 2015, the District's long-term debt obligations included $19,428,477 in bonds payable, and $235,713 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 2015-16. The District's budget was adopted with an estimated foundation grant of $7,391 per student based on information known at the time, and an estimated blended student count of 1,415. 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, 2015 and 2014

	Governmental Activities	
	2015	**2014**
Assets:		
Cash and cash equivalents	$ 1,156,886	$ 1,418,951
Investments	1,544,896	1,810,051
Accounts receivable	51,498	33,231
Due from other governmental units	1,851,282	1,824,903
Inventory	8,607	6,262
Prepaid expenses	56,163	-
Noncurrent assets:		
Capital assets	39,373,986	39,833,984
Less: Accumulated depreciation	(11,758,673)	(11,415,837)
Capital assets-net of accumulated depreciation	27,615,313	28,418,147
Total assets	32,284,645	33,601,310
Deferred outflows of resources:		
Deferred charge on refunding	238,553	272,632
Pension expense	1,937,165	
Total assets and deferred outflows of resources	34,460,363	33,873,942
Liabilities:		
Accounts payable and accrued expenses	128,203	258,107
Accrued salaries and related items	1,223,838	1,051,353
Interest payable	153,767	48,363
Unearned revenue	100,716	105,358
Current portion of long term obligations	1,408,477	1,350,000
Current portion of compensated absences	7,379	7,308
Noncurrent liabilities:		
Noncurrent portion of long term obligations	18,020,000	19,428,477
Add: Unearned premium on bonds net of accumulated amortization	479,903	549,299
Less: Unearned disount on bonds net of accumulated amortization	(103,354)	(113,765)
Compensated absences	228,334	239,149
Net pension liability	17,623,084	
Total liabilities	39,270,347	23,013,414
Deferred inflows of resources	1,948,239	
Total liabilities and deferred inflows of resources	41,218,586	23,013,414
Net position:		
Invested in capital assets net of related debt	7,810,287	7,204,136
Restricted for:		
Debt service	788,983	848,595
Capital projects	258,358	387,785
Unrestricted	(15,615,851)	2,420,012
Total net position	$ (6,758,223)	$ 10,860,528

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

		Program Revenues			Total Governmental Activities Net (Expense) Revenue and Changes in Net Position	
Functions/programs	**Expenses**	**Charges for Services**	**Capital Grants**	**Operating Grants**	**2015**	**2014**
Governmental activities:						
Instruction	$ 8,485,165	$ 9,446		$ 284,204	$ (8,191,515)	$ (7,797,723)
Support services	3,113,328	67,520	584,626	123,328	(2,337,854)	(3,369,976)
Food services	571,887	272,605		373,084	73,802	32,914
Community services	48,821	13,690		3,366	(31,765)	(16,149)
Athletics	436,498	59,028			(377,470)	(382,241)
Interest on long term debt including amortization of discount and premium	1,071,076				(1,071,076)	(1,095,579)
Unallocated depreciation	825,299				(825,299)	(817,944)
Total governmental activities	14,552,074	422,289	584,626	783,982	(12,761,177)	(13,446,698)
General Revenues:						
Property taxes, levied for general purposes					2,110,967	2,088,004
Property taxes, levied for debt service					1,577,086	1,530,160
Investment earnings					(30,888)	(29,777)
State sources					9,393,778	9,073,052
Intermediate sources					744,191	738,275
Other					95,086	112,895
Total general revenues					13,890,220	13,512,609
Change in net position					1,129,043	65,911
Net position, beginning of year					(7,887,266)	10,794,617
Net position, end of year					$ (6,758,223)	$ 10,860,528

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

Onsted Community Schools

Balance Sheet

Governmental Funds

June 30, 2015
With Comparative Totals for June 30, 2014

	General Fund	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds 2015	Total Governmental Funds 2014
Assets:					
Cash and cash equivalents	$ 92,213	$788,983	$ 275,690	$ 1,156,886	$ 1,418,951
Investments	1,483,747		61,149	1,544,896	1,810,051
Accounts receivable	51,498		-	51,498	33,231
Due from other governmental units	1,847,391		3,891	1,851,282	1,824,903
Inventory			8,607	8,607	6,262
Prepaid expenditures	56,163			56,163	
Total assets	$ 3,531,012	$ 788,983	$ 349,337	$ 4,669,332	$ 5,093,398
Liabilities:					
Accounts payable and accrued expenditures	127,605		598	128,203	258,107
Accrued salaries and related items	1,223,838			1,223,838	1,051,353
Unearned revenue	94,157		6,559	100,716	105,358
Total liabilities	1,445,600	-	7,157	1,452,757	1,414,818
Deferred inflows of resources:					
Unavailable revenue	88,978			88,978	89,765
Fund balances:					
Nonspendable			8,607	8,607	6,262
Restricted for:					
School lunch			71,975	71,975	34,524
Debt service		788,983		788,983	848,595
Capital projects			258,358	258,358	387,785
Assigned			3,240	3,240	1,448
Unassigned	1,996,434			1,996,434	2,310,201
Total fund balance	1,996,434	788,983	342,180	3,127,597	3,588,815
Total liabilities, deferred inflows & fund balances	$ 3,531,012	$ 788,983	$ 349,337	$ 4,669,332	$ 5,093,398

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, 2015 and 2014

	2015		2014	
Total governmental fund balances		$ 3,127,597		$ 3,588,815
Amount reported for governmental activities in the statement of net position are different because:				
Deferred charge on refunding		238,553		272,632
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	39,373,986		39,833,984	
The accumulated depreciation is	(11,758,673)		(11,415,837)	
		27,615,313		28,418,147
Revenue not recorded in the funds due to not being collected until after September 1:				
Deferred inflows-Special education payment from LISD		88,978		89,765
		(1,948,239)		-
		1,937,165		
Long term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable		(19,428,477)		(20,778,477)
Unearned premium on bonds net of amortization		(479,903)		(549,299)
Unearned disount on bonds net of amortization		103,354		113,765
Compensated absences		(235,713)		(246,457)
Proportionate share of the MPSERS net pension liability		(17,623,084)		
Accrued interest is not included as a liability in governmental funds, it is recorded when paid		(153,767)		(48,363)
Net position of governmental activities		$ (6,758,223)		$ 10,860,528

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds 2015	Total Governmental Funds 2014
Revenues:					
Local sources:					
Property taxes	$ 2,110,967	$1,577,086	$ -	$ 3,688,053	$ 3,618,164
Investment earnings	832	1,906	453	3,191	4,302
Sales, admissions and fees	135,994		286,295	422,289	438,392
Other	54,631		40,455	95,086	116,634
Total local sources	2,302,424	1,578,992	327,203	4,208,619	4,177,492
State sources	9,613,570		29,998	9,643,568	9,347,161
Federal sources	191,106	584,626	343,086	1,118,818	1,134,925
Intermediate sources	744,978			744,978	735,267
Total revenues	12,852,078	2,163,618	700,287	15,715,983	15,394,845
Expenditures:					
Current:					
Instruction	8,494,872			8,494,872	8,070,135
Support services	4,094,359			4,094,359	4,090,447
Food service activities			574,412	574,412	646,761
Community service activities	9,703		39,118	48,821	43,408
Athletic activities	436,487			436,487	442,721
Other			123,445	123,445	-
Capital outlay	5,815		16,650	22,465	80,350
Debt service:					
Interest	49,212	973,705	1,740	1,024,657	1,100,781
Other		4,525		4,525	72,225
Total expenditures	13,090,448	978,230	755,365	14,824,043	14,546,828
Excess (deficiency) of revenues over (under) expenditures	(238,370)	1,185,388	(55,078)	891,940	848,017
Other financing sources (uses):					
Prior year expense	(3,158)			(3,158)	-
Proceeds from bond issuance				-	5,788,710
Redemption of principal	(85,000)	(1,245,000)	(20,000)	(1,350,000)	(7,130,000)
Transfers in	40,141		27,380	67,521	62,750
Transfers out	(27,380)		(40,141)	(67,521)	(62,750)
Total other financing sources (uses)	(75,397)	(1,245,000)	(32,761)	(1,353,158)	(1,341,290)
Change in fund balances	(313,767)	(59,612)	(87,839)	(461,218)	(493,273)
Fund balances:					
Beginning of year	2,310,201	848,595	430,019	3,588,815	4,082,088
End of year	$ 1,996,434	$ 788,983	$ 342,180	$ 3,127,597	$ 3,588,815

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, 2015 and 2014

		2015		2014
Change in fund balances total governmental funds	$	(461,218)	$	(493,273)
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		(825,299)		(817,944)
Loss on disposal of assets		-		(3,739)
Capital outlay		22,465		80,350
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		48,363		53,796
Accrued interest payable, end of year		(153,767)		(48,363)
The proportionate share of the MPSERS net pension liability is not recorded in the governmental funds; contributions to MPSERS are recognized as expense as incurred.				
Net pension liability, beginning of year		18,747,794		
Net pension liability, end of year		(17,623,084)		
The proportionate share of deferred outflows and deferred inflows of resources as it relates to pension expense, are not recorded in the funds.				
Deferred inflows-pension expense, end of year		(1,948,239)		
Deferred outflows-pension expense, end of year		1,937,165		
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.				
Proceeds from bond issuance		-		(5,788,710)
Repayment of principal		1,350,000		7,130,000
Amortization of defeasance of bond interest		(34,079)		(34,079)
Amortization of bond premium		69,396		5,863
Amortization of bond discount		(10,411)		(6,094)
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		88,978		89,765
Deferred inflows-Unearned revenue, beginning of year		(89,765)		(86,757)
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		246,457		231,553
Accrued compensated absences, end of year		(235,713)		(246,457)
Change in net position of governmental activities	$	1,129,043	$	65,911

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, 2015 and 2014

	Agency Fund	
	2015	**2014**
ASSETS:		
Cash and cash equivalents	$ 75,639	$ 83,376
Total assets	75,639	83,376
LIABILITIES:		
Due to student groups	75,639	83,376
Total liabilities	$ 75,639	$ 83,376

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

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.

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

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

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

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, 2015, the foundation allowance was based on pupil membership counts taken in February 2015 and September of 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 2014 to August 2015. 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS or the System) and additions to/deductions from MPSERS' fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies (Continued)

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.

For the year ended June 30, 2015, the District levied the following amounts per $1,000 of assessed valuation.

Fund	**Mills**
General Fund:	
Non-Principal Residence Exemption	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
Principal and Non-Principal Residence Exemption	1.875
Principal and Non-Principal Residence Exemption	1.800
Principal and Non-Principal Residence Exemption	0.065

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.

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

1. Other Accounting Policies (Continued)

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.

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.

7. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2. Stewardship, Compliance and Accountability

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

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

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

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

2. Public hearings are conducted to obtain taxpayer comments.

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

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, 2015. The District does not consider these amendments to be significant.

7. There was one function exceeding budget on the General Fund and none on the Debt Fund Budgetary Comparison Schedule. Total expenditures did not exceed the amount appropriated in any fund.

Note 3. Deposits and Investments

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2015, $1,050,479 of the District's bank balance of $1,300,479 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 1,050,479

Note 3. Deposits and Investments (Continued)

Investments

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

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

Interest Rate Risk: The risk that changes in the interest rates will adversely affect the fair value of an investment. The District does not have an interest rate risk policy. The weighted average maturity of the entire MILAF portfolio at September 30, 2014 was 55 days.

The District's investments are as follows:

	Weighted Average Maturity	Fair Value	Standard & Poor's Rating
Michigan Liquid Asset Fund:	55.00		AAAm
General and School Lunch Fund		$ 1,544,896	*

*S&P Rating	Percentage of Portfolio
AA+	7.9%
A-1+	41.7%
A-1	46.2%
Exempt	1.9%
Not rated	2.3%

Valuation of Investments

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

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

Note 3. Deposits and Investments (Continued)

Valuation of Investments

Level 1 – Quoted prices in active markets for identical assets.
Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.
Level 3 – Unobservable inputs for the assets, including the Portfolios' own assumption for determining fair value.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940, however, the MILAF+ Portfolio is not registered under this act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2. There were no transfers between levels during the year ended September 30, 2014.

Note 4. Capital Assets

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

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
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	665,670	16,465		682,135
Vehicles other than buses	64,182			64,182
Buses	1,429,778	6,000	482,463	953,315
Depreciable capital assets	39,657,192	22,465	482,463	39,197,194
Less: accumulated depreciation				
Land improvements	258,879	23,638		282,517
Buildings and additions	9,482,917	708,176		10,191,093
Equipment	454,068	33,191		487,259
Vehicles other than buses	45,057	3,326		48,383
Buses	1,174,916	56,968	(482,463)	749,421
Total accumulated depreciation	11,415,837	825,299	(482,463)	11,758,673
Net depreciable capital assets	28,241,355	(802,834)	-	27,438,521
Net capital assets	$ 28,418,147	$ (802,834)	$ -	$ 27,615,313

Note 4. Capital Assets (Continued)

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, 2015 and 2014 amounted to $825,299 and $817,944, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5. Long-Term Debt

The School District has authorized refunding bonds, dated February 19, 2015, 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. The interest expense related to these bonds for the year ended June 30, 2015 was $248,580.

A schedule of the 2015 bond issue is as follows:

Year Ended	**Interest**	**Principal**	**Interest**	**Interest**	am
June 30,	**Rate**	**Due May 1**	**Due November 1**	**Due May 1**	**Total**
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
		$ 4,770,000	$ 456,933	$ 456,933	$ 5,683,866

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, 2015 was $42,000.

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
		$ 1,200,000	$ 21,000	$ 21,000	$ 1,415,675

Note 5. Long-Term Debt (Continued)

The School District has issued a general obligation bond issue, dated August 26, 2010, that will be used for school building and site purposes. The bond issue for $15,000,000 has an interest rate ranging from 1.300 to 5.900%. The interest expense related to these bonds for the year ended June 30, 2015 was $683,125.

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
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
		$ 12,400,000	$ 2,647,988	$ 2,647,988	$ 16,316,675

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, 2015 was $49,212.

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
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
		$ 1,040,000	$ 114,959	$ 114,959	$ 1,269,919

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, 2015 was $1,740.

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
2016	4.35%	$ 18,477	$ 870	$ 870	$ 20,217
		$ 18,477	$ 870	$ 870	$ 20,217

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, 2015.

	Total Bonds	Compensated Absences	Total
Balance July 1, 2014	$ 20,778,477	$ 246,457	$ 21,024,934
Additions	-	15,000	15,000
Deletions	(1,350,000)	(25,744)	(1,375,744)
Balance June 30, 2015	19,428,477	235,713	19,664,190
Less: current portion	1,408,477	7,379	1,415,856
Total due after one year	$ 18,020,000	$ 228,334	$ 18,248,334

Note 5. Long-Term Debt (Continued)

Debt Service requirements of governmental activities at June 30, 2015 were as follows:

Year Ended June 30,	Principal	Interest	Total
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	740,411	2,245,411
2020	1,545,000	669,449	2,214,449
2021-2025	6,385,000	1,906,469	8,291,469
2026-2028	5,700,000	307,500	6,007,500
	$19,428,477	$ 6,219,740	$ 25,648,217

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	$ 40,141	General	$ 27,380
Nonmajor	27,380	Nonmajor	40,141
Totals	$ 67,521		$ 67,521

Note 7. Employee Retirement System Defined Benefit Plan

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

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

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

Membership

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	**204,512**
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	**210,777**
Total plan members	**432,268**

Benefits Provided

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

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

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at 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 between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% of all wages 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. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.
Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.
GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

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

Basis of Accounting and Presentation

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves

Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was $1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was $4.7 billion.

Reserve for Employer Contributions - This reserve represents all District contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was ($25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all District contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve.
Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was $44.6 billion.

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

Reserves (Continued)

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was $0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was $18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was $3.5 billion.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

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

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an “antialienation” clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State’s general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

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

Cash

At September 30, 2014, the System had $246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to ($0.6) thousand for the year ended September 30, 2014.

Contributions and Funding Status

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded(overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0%	18.34 - 19.61%
Pension Plus	3.0 - 6.4%	18.11%
Defined Contribution	0.0%	15.44 - 16.61%

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year’s contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System’s members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members’ paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was $29.7 million and the discounted long-term receivable was $83.6 million at September 30, 2014.

Note 8. Net Pension Liability

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

The audited balances as of September 30, 2014 were:

Total Pension Liability	$	65,160,887,182
Plan Fiduciary Net Position	$	43,134,384,072
Net Pension Liability	**$**	**22,026,503,110**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll		250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the District's proportionate share between beginning net pension liability and ending net pension liability.

The unaudited balances as of October 1, 2013 were:

Total Pension Liability	$	62,859,499,994
Plan Fiduciary Net Position	$	39,427,686,072
Net Pension Liability	**$**	**23,431,813,922**

Proportionate Share of District's Net Pension Liability

At September 30, 2014, the District reported a liability of $17,623,084 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all Districts' statutorily required contributions for the measurement period. At September 30, 2014, the District's proportionate share percent was .08001 percent.

Note 8. Net Pension Liability (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Long-Term Expected Return on Plan Assets

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	4.8%
% Alternative Investment Pools	18.0%	8.5%
International Equity	16.0%	6.1%
Fixed Income Pools	10.5%	1.5%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	15.5%	6.3%
Short Term Investment Pools	2.0%	-2.0%
TOTAL	100.0%	

*Long term rate of return does not include 2.5% inflation

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

Note 8. Net Pension Liability (Continued)

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

As required by GASB Statement No. 68, the following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$ 23,234,501	$ 17,623,084	$ 12,895,381

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 8. Net Pension Liability (Continued)

Actuarial Valuations and Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12

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

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

Note 9. Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized total pension expense of $ 1,427,519**.** At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	650,254	-
Net difference between projected and actual earnings on pension plan investments	-	1,948,239
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	-	-
Reporting Unit contributions subsequent to the measurement date	1,286,911	
Total	$ 1,937,165	$ 1,948,239

*This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Each District will provide this information.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)

Plan Year Ended September 30,	Amount
2015	$ (317,974)
2016	$ (317,974)
2017	$ (317,974)
2018	$ (344,063)

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan, for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2015.

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, 2015 or any of the prior three years.

Note 11. 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 $6,397.00 per month beginning May 2015, extending to June 2020. The District is also obligated by a monthly maintenance agreement.

A schedule of payments follows:

Year ended June 30,	MT Business Technologies, Inc.
2016	$ 76,764
2017	76,764
2018	76,764
2019	76,764
2020	38,382
	$ 345,438

The rental costs, including maintenance, for the years ended June 30, 2015 and 2014 were $99,477 and $96,964, respectively.

Note 11. Net Position Restricted By Enabling Legislation

Net Position

The government-wide statement of net position reports $1,047,341 of restricted net position at June 30, 2015, all of which is restricted by enabling legislation.

Note 12. Accounting Change

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of this statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This Statement was implemented in this fiscal year.

The restatement of the beginning of the year net position is as follows:

Net position as previously stated at July 1, 2014	$	10,860,528
Adoption of GASB Statement 68		(18,747,794)
Net position as restated at July 1, 2014	$	(7,887,266)

Required Supplementary Information

Onsted Community Schools

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources	$2,259,988	$ 2,320,710	$2,302,424	$ (18,286)
State sources	9,515,930	9,617,014	9,613,570	(3,444)
Federal sources	166,993	203,956	191,106	(12,850)
Intermediate sources	720,493	746,050	744,978	(1,072)
Total revenues	12,663,404	12,887,730	12,852,078	(35,652)
EXPENDITURES:				
Instruction:				
Basic programs	6,899,457	6,881,524	6,843,383	38,141
Added needs	1,637,073	1,653,915	1,651,489	2,426
Total instruction	8,536,530	8,535,439	8,494,872	40,567
Support services:				
Pupil	618,090	625,410	623,927	1,483
Instructional staff	268,282	270,251	273,576	(3,325)
General administration	369,828	366,698	352,213	14,485
School administration	740,372	754,999	753,045	1,954
Business	184,863	189,415	188,862	553
Operation & maintenance	1,181,844	1,224,301	1,192,356	31,945
Transportation	590,186	518,467	513,540	4,927
Central	201,693	202,432	196,840	5,592
Athletic activities	425,000	437,072	436,487	585
Community services	18,835	16,262	9,703	6,559
Total support services	4,598,993	4,605,307	4,540,549	64,758
Capital outlay		5,815	5,815	
Debt service:				
Interest	49,212	49,212	49,212	-
Total expenditures	13,184,735	13,195,773	13,090,448	105,325
Excess (deficiency) of revenues over (under) expenditures	(521,331)	(308,043)	(238,370)	69,673
Other financing sources (uses):				
Prior year expense		-	(3,158)	(3,158)
Redemption of principal	(85,000)	(85,000)	(85,000)	-
Transfers in	40,000	40,142	40,141	(1)
Transfers out	(21,960)	(27,380)	(27,380)	-
Total other financing sources (uses)	(66,960)	(72,238)	(75,397)	(3,159)
Change in fund balance	(588,291)	(380,281)	(313,767)	66,514
Fund balances:				
Beginning of year			2,310,201	
End of year			$1,996,434	

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, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	$ 1,541,303	$ 1,582,193	$ 1,578,992	$ (3,201)
Federal sources	597,723	584,626	584,626	0
Total revenues	2,139,026	2,166,819	2,163,618	(3,201)
Expenditures:				
Interest	973,706	973,706	973,705	1
Other	3,515	4,550	4,525	25
Total expenditures	977,221	978,256	978,230	26
Excess (deficiency) of revenues over (under) expenditures	1,161,805	1,188,563	1,185,388	(3,175)
Other financing sources (uses):				
Redemption of principal	(1,245,000)	(1,245,000)	(1,245,000)	0
Total other financing sources (uses)	(1,245,000)	(1,245,000)	(1,245,000)	0
Change in fund balance	(83,195)	(56,437)	(59,612)	(3,175)
Fund balances:				
Beginning of year			848,595	
End of year			788,983	

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

Onsted Community Schools

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

June 30, 2015

		2015
A.	Reporting unit's proportion of net pension liability (%)	0.08001%
B.	Reporting unit's proportionate share of net pension liability	$ 17,623,084
C.	Reporting unit's covered-employee payroll (gross wages)	$ 5,182,927
D.	Reporting units' proportionate share of net pension liability as a percentage of its covered-employee payroll	29.4099%
E.	Plan fiduciary net position as a percentage of total pension liability	66.20%

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

Onsted Community Schools

Required Supplementary Information

Schedule of Contributions

June 30, 2015

			2015
A.	Statutorily required contributions	$	1,702,610
B.	Contributions in relation to statutorily required contributions	$	1,702,610
C.	Contribution deficiency (excess)	$	-
D.	Reporting unit's covered-employee payroll	$	6,914,209
E.	Contributions as a percentage of covered-employee payroll		24.6248%

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

Onsted Community Schools

Notes to Required Supplementary Information

For the Year Ended June 30, 2015

Changes of benefit terms: There were no changes of benefit terms in 2014.

Changes of assumptions: There were no changes of benefit assumptions in 2014.

Other Additional Information

Onsted Community Schools

Combining Balance Sheet

Nonmajor Funds

June 30, 2015
With Comparative Totals for June 30, 2014

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds 2015	Total Nonmajor Governmental Funds 2014
Assets:				
Cash and cash equivalents	$ 17,332	$ 258,358	$ 275,690	$ 392,609
Investments	61,149		61,149	23,879
Due from other governmental units	3,891		3,891	24,656
Inventory	8,607		8,607	6,262
Total assets	90,979	258,358	349,337	447,679
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	598		598	11,707
Unearned revenue	6,559		6,559	5,953
Total liabilities	7,157	-	7,157	17,660
Fund Balances:				
Reserved for:				
Nonspendable	8,607		8,607	6,262
Restricted	71,975	258,358	330,333	422,309
Assigned	3,240		3,240	1,448
Total fund balances	83,822	258,358	342,180	430,019
Total liabilities & fund balances	$ 90,979	$ 258,358	$ 349,337	$ 447,679

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

	Special	Capital	Total Nonmajor Governmental Funds	
REVENUES:	**Revenue**	**Projects**	**2015**	**2014**
Local sources:				
Investment earnings	$ -	$ 453	$ 453	$ 1,055
Sales, admissions and fees	286,295		286,295	307,510
Other	19,150	21,305	40,455	25,209
Total local sources	305,445	21,758	327,203	333,774
State sources	29,998		29,998	34,468
Federal sources	343,086		343,086	351,300
Total revenues	678,529	21,758	700,287	719,542
EXPENDITURES:				
Food service activities	574,412		574,412	646,761
Community service activities	39,118		39,118	32,764
Other		123,445	123,445	-
Capital outlay	10,650	6,000	16,650	80,350
Debt service:				
Interest		1,740	1,740	36,822
Total expenditures	624,180	131,185	755,365	796,697
Excess (deficiency) of revenues over (under) expenditures	54,349	(109,427)	(55,078)	(77,155)
Other financing sources (uses):				
Redemption of principal		(20,000)	(20,000)	(20,000)
Transfers in	27,380		27,380	21,930
Transfers out	(40,141)		(40,141)	(40,820)
Total other financing sources (uses)	(12,761)	(20,000)	(32,761)	(38,890)
Change in fund balances	41,588	(129,427)	(87,839)	(116,045)
Fund balances:				
Beginning of year	42,234	387,785	430,019	546,064
End of year	$ 83,822	$ 258,358	$ 342,180	$ 430,019

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

Onsted Community Schools

Combining Balance Sheet

Special Revenue Funds

June 30, 2015
With Comparative Totals for June 30, 2014

	School Lunch	Community Service	Total Special Revenue Funds 2015	Total Special Revenue Funds 2014
Assets:				
Cash and cash equivalents	$ 14,092	$ 3,240	$ 17,332	$ 4,824
Investments	61,149		61,149	23,879
Accounts receivable			-	273
Due from other governmental units	3,891		3,891	24,656
Inventory	8,607		8,607	6,262
Total assets	87,739	3,240	90,979	59,894
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	598		598	11,707
Unearned revenue	6,559		6,559	5,953
Total liabilities	7,157	-	7,157	17,660
Fund Balances:				
Nonspendable	8,607		8,607	6,262
Restricted	71,975		71,975	34,524
Assigned		3,240	3,240	1,448
Total fund balances	80,582	3,240	83,822	42,234
Total liabilities & fund balances	$ 87,739	$ 3,240	$ 90,979	$ 59,894

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

	School	Community	Total Special Revenue Funds	
REVENUES:	**Lunch**	**Service**	**2015**	**2014**
Local sources:				
Sales, admissions and fees	$ 272,605	$ 13,690	$ 286,295	$ 307,510
Other	4,280	14,870	19,150	2,599
Total local sources	276,885	28,560	305,445	310,109
State sources	29,998		29,998	34,468
Federal sources	343,086		343,086	351,300
Total revenues	649,969	28,560	678,529	695,877
EXPENDITURES:				
Cost of goods sold - net	270,360		270,360	312,697
Salaries and wages	181,529	23,502	205,031	224,269
Employee benefits	87,224	9,626	96,850	97,328
Contracted services	13,657		13,657	13,570
Travel, workshops and conferences	219		219	209
Materials and supplies	21,423	5,990	27,413	31,452
Capital outlay		10,650	10,650	-
Total expenditures	574,412	49,768	624,180	679,525
Excess (deficiency) of revenues over (under) expenditures	75,557	(21,208)	54,349	16,352
Other financing sources (uses):				
Transfers in	4,380	23,000	27,380	21,930
Transfers out	(40,141)		(40,141)	(40,820)
Total other financing sources (uses)	(35,761)	23,000	(12,761)	(18,890)
Change in fund balances	39,796	1,792	41,588	(2,538)
Fund balances:				
Beginning of year	40,786	1,448	42,234	44,772
End of year	$ 80,582	$ 3,240	$ 83,822	$ 42,234

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

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

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, each major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2015, 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 19, 2015.

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 (2015-001 and 2015-002).

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:

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

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 19, 2015

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

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, 2015. Onsted Community Schools' major federal programs are identified in the summary of auditor's 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.

Opinion on each Major Federal Program

In my opinion, Onsted Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

To the Board of Education
Onsted Community Schools

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 19, 2015

Onsted Community Schools

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2014	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2015
U.S. Department of Agriculture							
Passed Through MDE							
Child Nutrition Cluster							
School Breakfast Program	10.553	$ 64,606			$ 64,606	$ 64,606	$ -
National School Lunch Program							
Cash	10.555	227,421			227,421	227,421	-
Entitlement Commodities		39,101			39,101	39,101	-
Total National School Lunch Program		266,522	-	-	266,522	266,522	-
Child and Adult Care Food Program	10.558	4,480			4,480	4,480	
Total Child Nutrition Cluster		335,608	-	-	335,608	335,608	-
Total U.S. Department of Agriculture		$ 335,608	$ -	$ -	$ 335,608	$ 335,608	$ -
U.S. Department of Education							
Passed through M.D.E.							
Title I, Part A*							
1415301314	84.010	$ 145,201	$ 12,040	$ 132,458		$ 12,040	
1515301415		138,032			135,022	123,962	11,060
Total Title I, Part A		283,233	12,040	132,458	135,022	136,002	11,060
Title II Part A							
1405201314	84.367	41,707	2,909	35,659		2,909	
1505201415		48,124			42,916	40,316	2,600
Total Title II Part A		89,831	2,909	35,659	42,916	43,225	2,600
Total U.S. Department of Education		$ 373,064	$ 14,949	$ 168,117	$ 177,938	$ 179,227	$ 13,660
Total Passed through MDE		$ 708,672	$ 14,949	$ 168,117	$ 513,546	$ 514,835	$ 13,660

The accompanying notes are an integral part of this schedule.

* - Designates Major Program

Onsted Community Schools

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2014	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2015
Federal Grantor Pass Through							
Passed through - Lenawee							
Intermediate School District (LISD)							
Transition Grant							
150490 TC	84.027	747			747	747	-
Title II Part B							
1424101415	84.366B	17,101			17,101	17,101	
Medical Assistance Program							
1415	93.778	2,798			2,798	2,798	-
Total Passed Through LISD		20,646	-	-	20,646	20,646	-
Total Federal Financial Assistance		$ 729,318	$ 14,949	$ 168,117	$ 534,192	$ 535,481	$ 13,660

The accompanying notes are an integral part of this schedule.

* - Designates Major Program

Onsted Community Schools

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

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:

Current year receipts per Schedule of Expenditures of Federal Awards		$ 535,481
Add:	TRIG District Participation	9,179
Less:	Commodities	(39,101)
	Amount passed through LISD	(20,646)
Total Grant Auditor Reports per the State of Michigan		$ 484,913

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	$ 534,192
Federal tax credit on QSCB bonds	584,626
Federal revenues per fund financial statements	$ 1,118,818

Onsted Community Schools

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: **Unmodified**

Internal Control over Financial Reporting:

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

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	X None reported

Type of Auditor's 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	X No

Identification of Major Programs

CFDA Number	Name of Federal Program/Cluster
84.010	Title I, Part A Grants to Local Educational Agencies

The accompanying notes are an integral part of this schedule.

Onsted Community Schools

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Section I - Summary of Auditor's 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 2015-001

The District's management prepares the internal interim and annual financial statements. The annual financial statements for the year ended June 30, 2015, 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.

Finding 2015-002

The District's management prepares budget information for the Board of Education in order to make informed decisions at the time of budget adoption and amendment. The Budgetary Comparison Schedule presents one expenditure function overspent compared to the final amended budget for the fiscal year 2014-15. Unfortunately, the District received an invoice for services within the fiscal year after the final budget adoption. As a result, a deficiency must be reported due to a lack of compliance with budgetary controls put into place by the District.

Client Response

We are aware of this deficiency and understand the importance budgetary controls over expenditures. Due diligence will be used to prepare and adopt budgets for the District in the future.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV – Prior Year Findings

None.

The accompanying notes are an integral part of this schedule.