

**Onsted Community Schools**  
**Financial Statements**  
**(with required supplementary and**  
**additional supplementary information)**  
**Year Ended June 30, 2016**



**Onsted Community Schools**

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**June 30, 2016**

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## **Independent Auditor's Report**

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Onsted Community Schools as of and for the year ended June 30, 2016, 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.**

**Phone: 517.945.3312 - [Meredith@MeredithFrancis.com](mailto:Meredith@MeredithFrancis.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, 2016, 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' 2015 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated October 19, 2015. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 42 through 47, 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 combining fund financial statements and schedule of changes in assets and liabilities for the student activity fund are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of federal revenues is presented for purposes of additional analysis as requested by the State of Michigan Department of Education, and is also not a required part of the basic financial statements.

The combining fund financial statements, schedule of federal revenues and schedule of changes in assets and liabilities for the student activity fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements, schedule of federal revenues and schedule of changes in assets and liabilities for the student activity fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

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

In accordance with *Government Auditing Standards*, I have also issued my report dated September 19, 2016, 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 Francis CPA*

Adrian, Michigan  
September 19, 2016

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

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, 2016.

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**

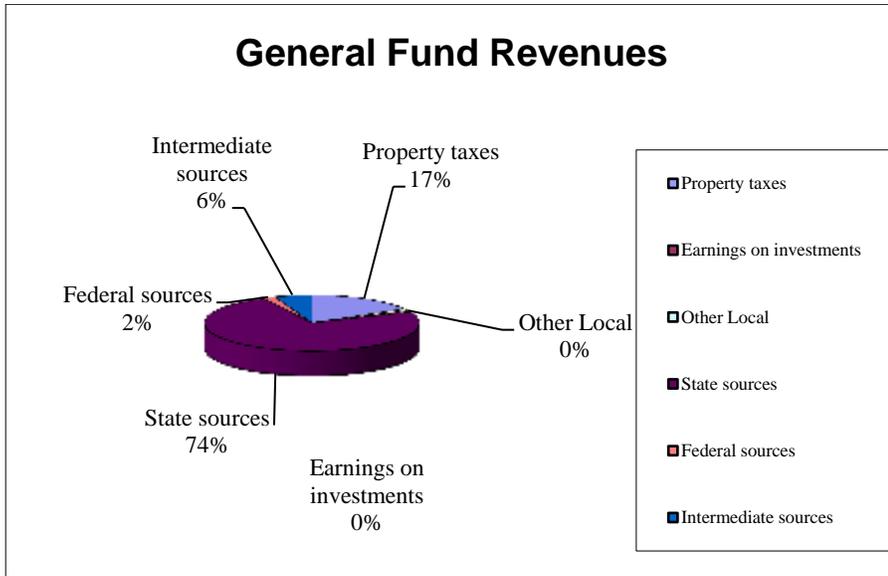
For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available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

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

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.

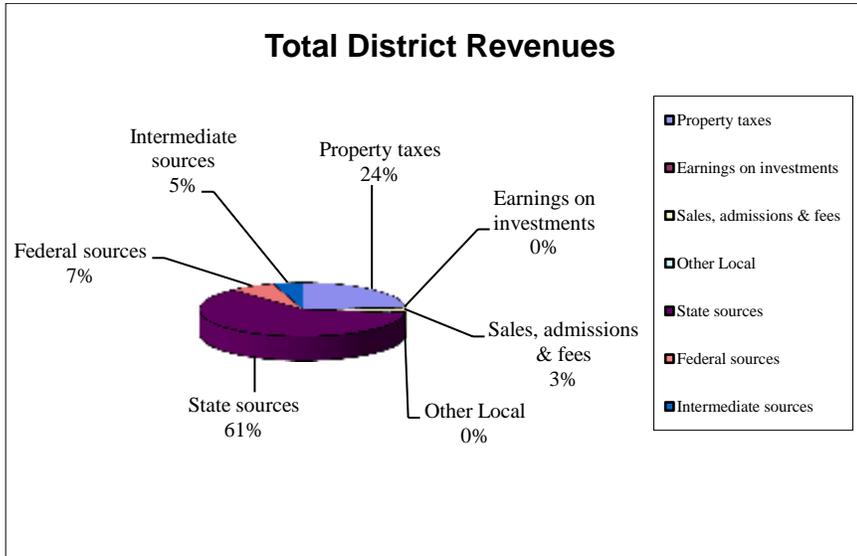
The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of \$7391 per student (an increase of \$265 from the previous year):



Local revenue increased from the previous year due to increased property taxes. State revenue decreased from the previous year due to changes in student enrollment. Federal revenues increased due to additional Title I and Title II-A funding. Intermediate revenue decreased due to reduced funding of the Project Lead the Way grant.

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

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.

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

**Summary of Net Position**

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
Current assets	\$ 4,684,126	\$ 4,669,332
Capital assets, net of depreciation	26,824,672	27,615,313
Total assets	<u>31,508,798</u>	<u>32,284,645</u>
Deferred outflow of resources	2,044,276	1,937,165
Total assets and deferred outflows of resources	<u>33,553,074</u>	<u>34,221,810</u>
Noncurrent liabilities	18,593,478	34,822,967
Other liabilities	1,727,659	
Net pension liability	19,388,066	3,038,903
Total liabilities	<u>39,709,203</u>	<u>37,861,870</u>
Deferred inflows of resources	1,473,592	1,948,239
Total liabilities and deferred inflows of resources	<u>41,182,795</u>	<u>39,810,109</u>
<b>Net position:</b>		
Net investment in capital assets	8,487,106	7,810,287
Restricted for:		
Debt service	777,456	788,983
Capital projects	187,130	258,358
Unrestricted	(17,081,413)	(15,615,851)
Total net position	<u><u>\$ (7,629,721)</u></u>	<u><u>\$ (6,758,223)</u></u>

**Analysis of Financial Position**

During the fiscal year ended June 30, 2016, the District's net position decreased by \$871,498. This compares to a \$1,129,043 increase in net position during the fiscal year ended June 30, 2015. Significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

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

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2016, \$818,730 was recorded for depreciation expense. This compares to \$825,299 for the year ended June 30, 2015.

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2016, \$28,089 of expenditures were capitalized and recorded as assets of the District, and there were no deletions. This compares to capitalized expenditures of \$22,465 and no deletions for the fiscal year ended June 30, 2015. These additions to the District's capital assets will be depreciated over their useful life. The major portion of these capital expenditures was for the purchase of food service equipment.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$790,641 for the fiscal year ended June 30, 2016.

**3. Recording of Pension Liability**

Employees of Onsted Community Schools are members of the Michigan Public School Employees Retirement System (MPERS). 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 MPERS plan fiscal year (October 1 – September 30). Onsted's share of total pension liability for the state is 0.07937787% and amounts to \$19,388,066 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 \$1,638,708 as of the end of the MPERS plan fiscal year.

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

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

**Results of Operations**

For the fiscal year ended June 30, 2016, the results of operations, on a District-wide basis, were:

		<b>Governmental Activities</b>	
		<b>2016</b>	<b>2015</b>
Program revenues:			
General revenues:			
Property taxes, levied for general purposes		2,160,375	2,110,967
Property taxes, levied for debt service		1,610,345	1,577,086
Investment earnings		9,083	(30,888)
State sources-unrestricted		9,323,175	9,393,778
Intermediate sources		733,469	744,191
Other		68,129	95,086
	Total general revenues	<u>13,904,576</u>	<u>13,890,220</u>
Program revenues:			
Charges for services		419,629	422,289
Capital grants		566,698	584,626
Operating grants		928,665	783,982
	Total program revenues	<u>1,914,992</u>	<u>1,790,897</u>
	Total revenues	<u>15,819,568</u>	<u>15,681,117</u>
Expenses:			
Instruction		8,394,761	8,485,165
Support services		5,510,729	3,113,328
Food services		582,687	571,887
Community services		40,965	48,821
Athletics		435,802	436,498
Interest expense		907,392	1,071,076
Unallocated depreciation		818,730	825,299
	Total expenses	<u>16,691,066</u>	<u>14,552,074</u>
Change in net position		(871,498)	1,129,043
Net position, beginning of year		<u>(6,758,223)</u>	<u>(7,887,266)</u>
Net position, end of year		<u><u>\$ (7,629,721)</u></u>	<u><u>\$ (6,758,223)</u></u>

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

**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 2015 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2016. Property tax revenues for the 2015-16 fiscal year were \$2,160,375 for general purposes.

**2. State sources**

The State of Michigan provides a \$7,391 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 2015-16 school year, the District blended count was 1,392.46. This included a loss of 43 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 1% increase in hourly wage for support staff. 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 33.41% of payroll to 36.31% of payroll, although a portion of that cost was reimbursed through state aid.

**5. Instructional purchases**

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

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

**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 2016 and June 2016 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 \$116,918, the actual results of the year show a decrease of \$42,044.

**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 \$12,686,491 versus the final budget of \$13,017,927. 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 grants for Computer Adaptive Tests, Early Literacy Targeted Instruction, Financial Analytic Tools, MPSERS cost offset, At Risk funding and Vocational Education.
- Federal revenues were increased due to revised grant amounts for Title I and Title II-A including carryover.
- Intermediate revenues were increased due to Special Education revenue being higher than anticipated.

**Onsted Community Schools  
Management's Discussion and Analysis  
June 30, 2016**

*Expenses:* The original budget for expenditures was \$12,981,268 versus the final budget figure of \$13,134,845. The main reason for the increase in expenditures was grant funds expenditures to match revenues.

**Final budget versus actual figures**

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

**Capital Asset and Debt Administration**

**Capital Assets -**

At July 1, 2015, the District had \$27,615,313 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of \$28,089 resulted from the purchase of food service equipment. There were no deletions recorded. More detail is presented in the notes to the financial statements.

**Long-Term Debt -**

At June 30, 2016, the District's long-term debt obligations included \$18,020,000 in bonds payable, and \$255,912 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 2016 and beyond.
- The State of Michigan has adopted a budget for 2016-17. The District's budget was adopted with an estimated foundation grant of \$7,511 per student based on information known at the time, and an estimated blended student count of 1,351. 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**

**Statements of Net Position**

**June 30, 2016 and 2015**

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,174,240	\$ 1,156,886
Investments	1,597,619	1,544,896
Accounts receivable	33,468	51,498
Due from other governmental units	1,835,342	1,851,282
Inventory	7,078	8,607
Prepays	36,379	56,163
Capital assets not being depreciated	176,792	176,792
Capital assets, net of accumulated depreciation	26,647,880	27,438,521
	<b>Total assets</b>	<b>32,284,645</b>
	<u>31,508,798</u>	<u>32,284,645</u>
<b>Deferred outflows of resources:</b>		
Deferred charge on refunding	204,474	238,553
Deferred pension amounts	1,839,802	1,937,165
	<b>Total assets and deferred outflows of resources</b>	<b>34,460,363</b>
	<u>33,553,074</u>	<u>34,460,363</u>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	211,240	128,203
Accrued salaries and related items	1,206,571	1,223,838
Interest payable	144,439	153,767
Unearned revenue	165,409	100,716
<b>Noncurrent liabilities:</b>		
Due within one year	1,439,928	1,415,856
Due in more than one year	17,153,550	18,624,883
Net pension liability	19,388,066	17,623,084
	<b>Total liabilities</b>	<b>39,270,347</b>
	<u>39,709,203</u>	<u>39,270,347</u>
Deferred inflows of resources- deferred pension amounts	1,473,592	1,948,239
	<b>Total liabilities and deferred inflows of resources</b>	<b>41,218,586</b>
	<u>41,182,795</u>	<u>41,218,586</u>
<b>Net position:</b>		
Net investment in capital assets	8,487,106	7,810,287
<b>Restricted for:</b>		
Debt service	777,456	788,983
Capital projects	187,130	258,358
Unrestricted	(17,081,413)	(15,615,851)
	<b>Total net position</b>	<b>(6,758,223)</b>
	<u>\$ (7,629,721)</u>	<u>\$ (6,758,223)</u>

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

**Onsted Community Schools**

**Statements of Activities**

**For the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Total Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>	
					<u>2016</u>	<u>2015</u>
<b>Governmental activities:</b>						
Instruction	\$ 8,394,761	\$ 10,911	\$ -	\$ 346,544	\$ (8,037,306)	\$ (8,191,515)
Support services	5,510,729	66,954	566,698	185,113	(4,691,964)	(2,337,854)
Food services	582,687	265,188	-	364,143	46,644	73,802
Community services	40,965	13,064	-	-	(27,901)	(31,765)
Athletics	435,802	63,512	-	32,865	(339,425)	(377,470)
Interest on long term debt	907,392	-	-	-	(907,392)	(1,071,076)
Unallocated depreciation	818,730	-	-	-	(818,730)	(825,299)
Total governmental activities	<u>16,691,066</u>	<u>419,629</u>	<u>566,698</u>	<u>928,665</u>	<u>(14,776,074)</u>	<u>(12,761,177)</u>
<b>General Revenues:</b>						
Property taxes, levied for general purposes					2,160,375	2,110,967
Property taxes, levied for debt service					1,610,345	1,577,086
Investment earnings					9,083	(30,888)
State sources					9,323,175	9,393,778
Intermediate sources					733,469	744,191
Other					68,129	95,086
Total general revenues					<u>13,904,576</u>	<u>13,890,220</u>
Change in net position					(871,498)	1,129,043
Net position, beginning of year					(6,758,223)	(7,887,266)
Net position, end of year					<u>\$ (7,629,721)</u>	<u>\$ (6,758,223)</u>

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

**Onsted Community Schools**

**Balance Sheets**

**Governmental Funds**

**June 30, 2016**

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

	<b>General Fund</b>	<b>Debt Service</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>	
				<b>2016</b>	<b>2015</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 194,698	\$ 777,456	\$ 202,086	\$ 1,174,240	\$ 1,156,886
Investments	1,554,888	-	42,731	1,597,619	1,544,896
Accounts receivable	33,468	-	-	33,468	51,498
Due from other governments	1,831,842	-	3,500	1,835,342	1,851,282
Inventory	-	-	7,078	7,078	8,607
Prepays	800	-	35,579	36,379	56,163
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 3,615,696</u>	<u>\$ 777,456</u>	<u>\$ 290,974</u>	<u>\$ 4,684,126</u>	<u>\$ 4,669,332</u>
<b>Liabilities:</b>					
Accounts payable and accrued expenditures	207,293	-	3,947	211,240	128,203
Accrued salaries and related items	1,206,571	-	-	1,206,571	1,223,838
Unearned revenue	158,966	-	6,443	165,409	100,716
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,572,830</u>	<u>-</u>	<u>10,390</u>	<u>1,583,220</u>	<u>1,452,757</u>
<b>Deferred inflows of resources:</b>					
Unavailable revenue	88,476	-	-	88,476	88,978
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund balances:</b>					
Nonspendable:					
Inventory	-	-	7,078	7,078	8,607
Prepays	800	-	35,579	36,379	56,163
Restricted for:					
Food service	-	-	48,690	48,690	71,975
Debt service	-	777,456	-	777,456	788,983
Capital projects	-	-	187,130	187,130	258,358
Assigned	-	-	2,107	2,107	3,240
Unassigned	1,953,590	-	-	1,953,590	1,940,271
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balance	<u>1,954,390</u>	<u>777,456</u>	<u>280,584</u>	<u>3,012,430</u>	<u>3,127,597</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows & fund balances	<u>\$ 3,615,696</u>	<u>\$ 777,456</u>	<u>\$ 290,974</u>	<u>\$ 4,684,126</u>	<u>\$ 4,669,332</u>

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

**Onsted Community Schools**

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

**June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Total governmental fund balances</b>	\$ 3,012,430	\$ 3,127,597
Amount reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - deferred charge on refunding	204,474	238,553
Deferred outflows of resources - unavailable revenue	88,476	88,978
Deferred outflows of resources - related to pensions	1,839,802	1,937,165
Deferred inflows of resources - related to pensions	(1,473,592)	(1,948,239)
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	176,792	39,373,986
The accumulated depreciation is	26,647,880	(11,758,673)
	26,824,672	27,615,313
Long term liabilities are not due and payable in the current period and are not reported in the funds.		
Bonds payable	(18,337,566)	(19,805,026)
Compensated absences	(255,912)	(235,713)
Proportionate share of the MPSERS net pension liability	(19,388,066)	(17,623,084)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid	(144,439)	(153,767)
<b>Net position of governmental activities</b>	<b>\$ (7,629,721)</b>	<b>\$ (6,758,223)</b>

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

**Onsted Community Schools**

**Statements of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015**

	<b>General</b>	<b>Debt Service</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>	
				<b>2016</b>	<b>2015</b>
<b>Revenues:</b>					
<b>Local sources:</b>					
Property taxes	\$ 2,160,375	\$ 1,610,345	\$ -	\$ 3,770,720	\$ 3,688,053
Investment earnings	5,352	2,983	748	9,083	3,191
Sales, admissions and fees	141,377	-	278,252	419,629	422,289
Other	79,220	-	21,774	100,994	95,086
Total local sources	2,386,324	1,613,328	300,774	4,300,426	4,208,619
State sources	9,609,348	-	26,745	9,636,093	9,643,568
Federal sources	245,484	566,698	337,398	1,149,580	1,118,818
Intermediate sources	733,971	-	-	733,971	744,978
Total revenues	12,975,127	2,180,026	664,917	15,820,070	15,715,983
<b>Expenditures:</b>					
<b>Current:</b>					
Instruction	8,383,511	-	-	8,383,511	8,494,872
Supporting services	4,074,875	-	-	4,074,875	4,094,359
Food service	-	-	582,696	582,696	574,412
Community service	3,768	-	37,197	40,965	48,821
Athletics	436,010	-	-	436,010	436,487
Other	-	-	35,962	35,962	123,445
Capital outlay	-	-	28,089	28,089	22,465
<b>Debt service:</b>					
Interest	45,706	893,525	870	940,101	1,024,657
Other	-	3,028	-	3,028	4,525
Total expenditures	12,943,870	896,553	684,814	14,525,237	14,824,043
Excess (deficiency) of revenues over (under) expenditures	31,257	1,283,473	(19,897)	1,294,833	891,940
<b>Other financing sources (uses):</b>					
Prior year expenditures	-	-	-	-	(3,158)
Redemption of principal	(95,000)	(1,295,000)	(20,000)	(1,410,000)	(1,350,000)
Transfers in	44,699	-	23,000	67,699	67,521
Transfers out	(23,000)	-	(44,699)	(67,699)	(67,521)
Total other financing sources (uses)	(73,301)	(1,295,000)	(41,699)	(1,410,000)	(1,353,158)
Change in fund balances	(42,044)	(11,527)	(61,596)	(115,167)	(461,218)
<b>Fund balances:</b>					
Beginning of year	1,996,434	788,983	342,180	3,127,597	3,588,815
End of year	<u>\$ 1,954,390</u>	<u>\$ 777,456</u>	<u>\$ 280,584</u>	<u>\$ 3,012,430</u>	<u>\$ 3,127,597</u>

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

**Onsted Community Schools**

**Reconciliations of the Change in Fund Balances of Governmental Funds  
To the Change in Net Position of Governmental Activities  
For the Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Change in fund balances - total governmental funds	\$ (115,167)	\$ (461,218)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	(818,730)	(825,299)
Capital outlay	28,089	22,465
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	153,767	48,363
Accrued interest payable, end of year	(144,439)	(153,767)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.		
Repayment of principal	1,408,477	1,350,000
Amortization of defeasance of bond interest	(34,079)	-
Amortization of bond premium	69,395	69,396
Amortization of bond discount	(10,412)	(10,411)
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	88,476	88,978
Deferred inflows-Unearned revenue, beginning of year	(88,978)	(89,765)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Net pension liability, beginning of year	17,623,084	18,747,794
Net pension liability, end of year	(19,388,066)	(17,623,084)
Deferred inflows-pension expense, end of year	(1,473,592)	(1,948,239)
Deferred inflows-pension expense, beginning of year	1,948,239	-
Deferred outflows-pension expense, end of year	1,839,802	1,937,165
Deferred outflows-pension expense, beginning of year	(1,937,165)	-
Accrued compensated absences, beginning of year	235,713	246,457
Accrued compensated absences, end of year	(255,912)	(235,713)
Change in net position of governmental activities	\$ (871,498)	\$ 1,163,122

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

**Onsted Community Schools**  
**Statements of Fiduciary Assets and Liabilities**  
**Agency Fund**  
**June 30, 2016 and 2015**

		<b>Student Activities Fund</b>	
		<b>2016</b>	<b>2015</b>
<b>Assets:</b>			
Cash and cash equivalents		\$ 94,790	\$ 75,639
Total assets		94,790	75,639
 <b>Liabilities:</b>			
Due to student groups and activities		94,790	75,639
Total liabilities		\$ 94,790	\$ 75,639

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

## Onsted Community Schools

### Notes to Financial Statements

June 30, 2016

#### Note 1. Summary of Significant Accounting Policies

##### A. Reporting Entity

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

##### B. Government-Wide and Fund Financial Statements

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

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

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

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

**Accrual Method**

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

**Modified Accrual Method**

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

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

**The District reports the following major governmental funds:**

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

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

**The District reports the following nonmajor funds:**

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

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

**The District reports the following fiduciary fund:**

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Other Accounting Policies**

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

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

**Use of Estimates**

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

**Cash and cash equivalents**

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

**Investments**

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

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

**Inventories and Prepaids**

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

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

**Capital Assets**

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

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

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

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

**Deferred outflows of resources**

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

**Long-term Obligations**

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

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

**Compensated Absences**

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

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

**Deferred inflows of resources**

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

**Fund Equity**

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

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

**Pensions**

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Concluded)**

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

**Property Taxes**

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

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Residence Exemption	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
Principal and Non-Principal Residence Exemption	1.830
Principal and Non-Principal Residence Exemption	1.800
Principal and Non-Principal Residence Exemption	0.110

**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, 2016, the foundation allowance was based on pupil membership counts taken in February 2015 and September of 2015.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on principal residence exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for commercial personal property tax. The state revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governments.

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 2. Budgetary Information**

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

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2016. The District does not consider these amendments to be significant.
7. There were no functions exceeding budget on the General Fund and none on the Debt Fund Budgetary Comparison Schedule. Total expenditures did not exceed the amount appropriated in any fund.

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**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, 2016, \$2,153,896 of the District's bank balance of \$2,887,102 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u><u>\$ 2,153,896</u></u>
--------------------------------	----------------------------

**Investments**

The District's investments are deposits in the Michigan Liquid Asset Fund (MILAF) and MILAF+ Portfolio and a certificate of deposit with a local institution. 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 certificate of deposit credit risk disclosures are included above with deposits. 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 certificate of deposit at June 30, 2016 was 122 days; the weighted average maturity of the entire MILAF portfolio at September 30, 2015 was 34 days.

The District's investments are as follows:

	<b>Weighted Average Maturity</b>	<b>Fair Value</b>	<b>Standard &amp; Poor's Rating</b>
MILAF+ Portfolio	34.00	<u><u>\$ 46,843</u></u>	*

<b>*S&amp;P Rating</b>	<b>Percentage of Portfolio</b>
AA+	15.5%
A-1+	36.0%
A-1	47.4%
Exempt	1.1%

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 3. Deposits and Investments (Concluded)**

**Valuation of Investments**

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

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

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

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

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

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940, however, the MILAF+ Portfolio is not registered under this act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2. There were no transfers between levels during the year ended September 30, 2015.

**Note 4. Receivables**

Receivables as of June 30, 2016 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
Accounts receivable	\$ 33,468	\$ -	\$ 33,468
Due from other governments	1,831,842	3,500	1,835,342
	<u>\$ 1,865,310</u>	<u>\$ 3,500</u>	<u>\$ 1,868,810</u>

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 5. Capital Assets**

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

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
<b>Assets not being depreciated</b>				
Land	\$ 176,792			\$ 176,792
<b>Other capital assets:</b>				
Land improvements	539,948			539,948
Buildings and additions	36,957,614			36,957,614
Equipment	682,135	28,089		710,224
Vehicles other than buses	64,182			64,182
Buses	953,315			953,315
Depreciable capital assets	39,197,194	28,089	-	39,225,283
Less: accumulated depreciation				
Land improvements	282,517	23,638		306,155
Buildings and additions	10,191,093	708,177		10,899,270
Equipment	487,259	33,667		520,926
Vehicles other than buses	48,383	3,326		51,709
Buses	749,421	49,922		799,343
Total accumulated depreciation	11,758,673	818,730	-	12,577,403
Net depreciable capital assets	27,438,521	(790,641)	-	26,647,880
Net capital assets	\$ 27,615,313	\$ (790,641)	\$ -	\$ 26,824,672

Depreciation for the fiscal year ended June 30, 2016 and 2015 amounted to \$818,730 and \$825,299, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 6. Short-Term Debt**

The District issued state aid anticipation notes payable in the amount of \$500,000, with an interest rate of 1.1%, and the note was paid in full during the fiscal year. The note is secured by the full faith and credit of the District as well as pledged state aid. Interest expense for the year ended June 30, 2016 was \$3,911.

Activity for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation note	\$ -	\$ 500,000	\$ 500,000	\$ -

**Note 7. Long-Term Debt**

The School District has authorized refunding bonds, dated February 19, 2014, for the purpose of refunding a portion of a prior bond issue of the School District. The bonds were issued for \$5,315,000 at an interest rate ranging from 3% to 4%. The first scheduled payment was May 2015. The interest expense related to these bonds for the year ended June 30, 2016 was \$190,800.

A schedule of the 2014 bond issue is as follows:

<u>Year Ended June 30,</u>	<u>Interest Rate</u>	<u>Principal Due May 1</u>	<u>Interest Due November 1</u>	<u>Interest Due May 1</u>	<u>Total</u>
2017	4.00%	\$ 620,000	\$ 95,183	\$ 95,183	\$ 810,366
2018	4.00%	650,000	81,448	81,448	812,896
2019	4.00%	680,000	66,923	66,923	813,846
2020	4.00%	710,000	51,593	51,593	813,186
2021	4.00%	740,000	35,443	35,443	810,886
2022	4.00%	775,000	18,260	18,260	811,520
		<u>\$ 4,175,000</u>	<u>\$ 348,850</u>	<u>\$ 348,850</u>	<u>\$ 4,872,700</u>

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

A schedule of the 2011 bond issue is as follows:

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 7. Long-Term Debt (Continued)**

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

A schedule of the 2010 bond issue is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2017	4.250%	\$ 700,000	\$ 317,238	\$ 317,238	\$ 1,334,475
2018	4.650%	700,000	302,363	302,363	1,304,725
2019	4.750%	700,000	286,088	286,088	1,272,175
2020	4.875%	700,000	269,463	269,463	1,238,925
2022	5.200%	1,400,000	234,200	234,200	1,868,400
2023			216,000	216,000	
2024	5.550%	3,000,000	174,375	174,375	3,348,750
2027	5.900%	4,500,000	44,250	44,250	4,588,500
		<u>\$ 11,700,000</u>	<u>\$ 2,317,625</u>	<u>\$ 2,317,625</u>	<u>\$ 14,955,950</u>

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

A schedule of the 2008 bond issue is as follows:

<b>Year Ended June 30,</b>	<b>Interest Rate</b>	<b>Principal Due May 1</b>	<b>Interest Due November 1</b>	<b>Interest Due May 1</b>	<b>Total</b>
2017	4.250%	\$ 105,000	\$ 20,894	\$ 20,894	\$ 146,788
2018	4.250%	110,000	18,663	18,663	147,325
2019	4.250%	125,000	16,325	16,325	157,650
2020	4.250%	135,000	13,669	13,669	162,338
2021	4.250%	145,000	10,800	10,800	166,600
2022	4.750%	155,000	7,719	7,719	170,438
2023	4.750%	170,000	4,038	4,038	178,075
		<u>\$ 945,000</u>	<u>\$ 92,106</u>	<u>\$ 92,106</u>	<u>\$ 1,129,213</u>

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 7. Long-Term Debt** (Concluded)

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

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2016.

	<u>Total Bonds</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2015	\$ 19,428,477	\$ 235,713	\$ 19,664,190
Additions	-	27,578	27,578
Deletions	<u>(1,408,477)</u>	<u>(7,379)</u>	<u>(1,415,856)</u>
Balance June 30, 2016	18,020,000	255,912	18,275,912
Less: current portion	<u>1,425,000</u>	<u>14,928</u>	<u>1,439,928</u>
Total due after one year	<u>\$ 16,595,000</u>	<u>\$ 240,984</u>	<u>\$ 16,835,984</u>

Debt Service requirements of governmental activities at June 30, 2016 were as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	885,000	597,286	1,482,286
2022-2026	5,500,000	1,309,183	6,809,183
2027-2028	<u>5,700,000</u>	<u>130,500</u>	<u>5,830,500</u>
	<u>\$18,020,000</u>	<u>\$ 5,118,403</u>	<u>\$ 23,138,403</u>

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**Note 8. Interfund Transfers**

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

A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 44,699	General	\$ 23,000
Nonmajor	23,000	Nonmajor	44,699
Totals	<u>\$ 67,699</u>		<u>\$ 67,699</u>

**Note 9. Employee Retirement System Defined Benefit Plan**

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

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

The System's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation (FAC), years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

## Onsted Community Schools

### Notes to Financial Statements

June 30, 2016

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

##### Pension Reform 2010

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

##### Pension Reform 2012

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

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

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

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

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

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

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

**Pension Reform 2012 (Concluded)**

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

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

**Regular Retirement**

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

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

**Contributions and Funded Status**

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

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

**Contributions and Funded Status (Continued)**

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

**Pension Contribution Rates**

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	22.52 - 23.07%
Member Investment Plan	3.0 - 7.0%	22.52 - 23.07%
Pension Plus	3.0 - 6.4%	21.99%
Defined Contribution	0.0%	17.72 - 18.76%

Required contributions to the pension plan from Onsted Community Schools were \$1,531,302 for the year ended September 30, 2015. The District's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$1,664,848. See the schedule of pension contributions on page 46 for additional information.

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

At June 30, 2016, the District reported a liability of \$19,388,066 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .07937787%, which was a decrease of .00063213% from its proportion measured as of September 30, 2014.

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$1,607,836. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 64,219
Changes of assumptions	477,375	-
Net difference between projected and actual earnings on pension plan investments	98,960	
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	2,804	117,519
Reporting Unit contributions subsequent to the measurement date	1,260,663	1,291,854
Total	<u>\$ 1,839,802</u>	<u>\$ 1,473,592</u>

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

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

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

\$1,220,663 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Plan Year Ended September 30,</b>	<b>Amount</b>
2016	\$ 23,533
2017	\$ 23,533
2018	\$ (2,351)
2019	\$ 352,686

**Actuarial Assumptions**

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

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2014
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 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.

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

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

**Actuarial Assumptions (Concluded)**

**Notes:**

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
<b>TOTAL</b>	<b>100.0%</b>	

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

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

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

**Discount Rate**

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

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

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<b>1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%</b>	<b>Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%</b>	<b>1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%</b>
\$ 24,996,187	\$ 19,388,066	\$ 14,660,190

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the [2015 MPSERS CAFR](http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf) ([www.michigan.gov/documents/orsschools/MPSERS\\_CAFR\\_2015\\_Final\\_510211\\_7.pdf](http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf)).

**Onsted Community Schools**

**Notes to Financial Statements**

**June 30, 2016**

**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, 2016.

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, 2016 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 2016, extending to June 2020. The District is also obligated by a monthly maintenance agreement.

A schedule of payments follows:

<b>Year ended</b>		
<b><u>June 30,</u></b>		<b><u>Leases</u></b>
2017	\$	76,764
2018		76,764
2019		76,764
2020		<u>38,382</u>
	\$	<u><u>268,674</u></u>

The rental costs, including maintenance, for the years ended June 30, 2016 and 2015 were \$98,293 and \$99,477, respectively.

**Note 12. Net Position Restricted By Enabling Legislation**

**Net Position**

The government-wide statement of net position reports \$964,586 of restricted net position at June 30, 2016, all of which is restricted by enabling legislation.

**Required Supplementary Information**

**Onsted Community Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES:</b>				
Local sources	\$2,319,566	\$ 2,389,486	\$2,386,324	\$ (3,162)
State sources	9,438,745	9,583,167	9,609,348	26,181
Federal sources	166,480	266,575	245,484	(21,091)
Intermediate sources	721,700	733,999	733,971	(28)
Total revenues	<u>12,646,491</u>	<u>12,973,227</u>	<u>12,975,127</u>	<u>1,900</u>
<b>EXPENDITURES:</b>				
<b>Instruction:</b>				
Basic programs	6,614,002	6,707,609	6,685,486	22,123
Added needs	1,678,053	1,701,577	1,698,025	3,552
Total instruction	<u>8,292,055</u>	<u>8,409,186</u>	<u>8,383,511</u>	<u>25,675</u>
<b>Supporting services:</b>				
Pupil	615,135	666,853	665,336	1,517
Instructional staff	151,965	206,131	195,515	10,616
General administration	370,292	352,093	347,887	4,206
School administration	760,495	769,724	765,356	4,368
Business services	190,120	187,110	186,413	697
Operations & maintenance	1,240,299	1,207,431	1,200,147	7,284
Pupil transportation	539,762	521,264	515,073	6,191
Technology	203,011	203,642	199,148	4,494
Athletics	437,072	436,029	436,010	19
Community services	12,976	7,375	3,768	3,607
Total support services	<u>4,521,127</u>	<u>4,557,652</u>	<u>4,514,653</u>	<u>42,999</u>
<b>Debt service:</b>				
Interest	45,786	45,707	45,706	1
Total expenditures	<u>12,858,968</u>	<u>13,012,545</u>	<u>12,943,870</u>	<u>68,675</u>
Excess (deficiency) of revenues over (under) expenditures	(212,477)	(39,318)	31,257	70,575
<b>Other financing sources (uses):</b>				
Redemption of principal	(95,000)	(95,000)	(95,000)	-
Transfers in	40,000	44,700	44,699	(1)
Transfers out	(27,300)	(27,300)	(23,000)	4,300
Total other financing sources (uses)	<u>(82,300)</u>	<u>(77,600)</u>	<u>(73,301)</u>	<u>4,299</u>
Change in fund balance	(294,777)	(116,918)	(42,044)	74,874
<b>Fund balances:</b>				
Beginning of year			<u>1,996,434</u>	
End of year			<u><u>\$1,954,390</u></u>	

**Onsted Community Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Debt Service Fund**  
**For the Year Ended June 30, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues:</b>				
Local sources	\$ 1,582,193	\$ 1,616,907	\$ 1,613,328	\$ (3,579)
Federal sources	584,423	566,698	566,698	-
<b>Total revenues</b>	2,166,616	2,183,605	2,180,026	(3,579)
<b>Expenditures:</b>				
Interest	893,526	893,525	893,525	-
Other	4,550	4,950	3,028	1,922
<b>Total expenditures</b>	898,076	898,475	896,553	1,922
<b>Excess (deficiency) of revenues over (under) expenditures</b>	1,268,540	1,285,130	1,283,473	(1,657)
Other financing sources (uses):				
Redemption of principal	(1,295,000)	(1,295,000)	(1,295,000)	-
<b>Total other financing sources (uses)</b>	(1,295,000)	(1,295,000)	(1,295,000)	-
<b>Change in fund balance</b>	(26,460)	(9,870)	(11,527)	(1,657)
<b>Fund balances:</b>				
Beginning of year			788,983	
End of year			\$ 777,456	

**Onsted Community Schools**

**Required Supplementary Information**

**Schedule of Proportionate Share of the Net Pension Liability**

**June 30, 2016**

	<u>2016</u>	<u>2015</u>
A. Reporting unit's proportion of net pension liability (%)	0.07938%	0.08001%
B. Reporting unit's proportionate share of net pension liability	\$ 19,388,066	\$ 17,623,084
C. Reporting unit's covered-employee payroll	\$ 6,757,703	\$ 6,859,293
D. Reporting units' proportionate share of net pension liability as a percentage of its covered-employee payroll	286.9032%	256.9227%
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

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

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

**Onsted Community Schools**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**June 30, 2016**

	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 1,664,848	\$ 1,702,610
B. Contributions in relation to statutorily required contributions	\$ 1,664,848	\$ 1,702,610
C. Contribution deficiency (excess)	\$ -	\$ -
D. Reporting unit's covered-employee payroll	\$ 6,497,087	\$ 6,914,209
E. Contributions as a percentage of covered-employee payroll	25.6245%	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, 2016**

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

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

**Other Additional Information**

**Onsted Community Schools**

**Combining Balance Sheet**

**Nonmajor Funds**

**June 30, 2016**

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

	<b>Special Revenue</b>	<b>Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>	
			<b>2016</b>	<b>2015</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 14,956	\$ 187,130	\$ 202,086	\$ 275,690
Investments	42,731	-	42,731	61,149
Due from other governmental units	3,500	-	3,500	3,891
Prepaid expense	-	35,579	35,579	-
Inventory	7,078	-	7,078	8,607
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>68,265</u>	<u>222,709</u>	<u>290,974</u>	<u>349,337</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenditures	3,947	-	3,947	598
Unearned revenue	6,443	-	6,443	6,559
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>10,390</u>	<u>-</u>	<u>10,390</u>	<u>7,157</u>
<b>Fund Balances:</b>				
Nonspendable:				
Inventory	7,078	-	7,078	8,607
Prepays	-	35,579	35,579	-
Restricted for:				
Food service	48,690	-	48,690	-
Capital projects	-	187,130	187,130	330,333
Assigned	2,107	-	2,107	3,240
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>57,875</u>	<u>222,709</u>	<u>280,584</u>	<u>342,180</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities & fund balances	<u>\$ 68,265</u>	<u>\$ 222,709</u>	<u>\$ 290,974</u>	<u>\$ 349,337</u>

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

**Onsted Community Schools**

**Combining Statement of Revenues, Expenditures & Changes In  
Fund Balance**

**Nonmajor Funds**

**For the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015**

	<b>Special Revenue</b>	<b>Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>	
			<b>2016</b>	<b>2015</b>
<b>Revenues:</b>				
<b>Local sources:</b>				
Investment earnings	\$ -	\$ 748	\$ 748	\$ 453
Sales, admissions and fees	278,252	-	278,252	286,295
Other	1,339	20,435	21,774	40,455
Total local sources	279,591	21,183	300,774	327,203
State sources	26,745	-	26,745	29,998
Federal sources	337,398	-	337,398	343,086
Total revenues	643,734	21,183	664,917	700,287
<b>Expenditures:</b>				
Food service activities	582,696	-	582,696	574,412
Community service activities	37,197	-	37,197	39,118
Other	-	35,962	35,962	123,445
Capital outlay	28,089	-	28,089	16,650
<b>Debt service:</b>				
Interest	-	870	870	1,740
Total expenditures	647,982	36,832	684,814	755,365
Excess (deficiency) of revenues over (under) expenditures	(4,248)	(15,649)	(19,897)	(55,078)
<b>Other financing sources (uses):</b>				
Redemption of principal	-	(20,000)	(20,000)	(20,000)
Transfers in	23,000	-	23,000	27,380
Transfers out	(44,699)	-	(44,699)	(40,141)
Total other financing sources (uses)	(21,699)	(20,000)	(41,699)	(32,761)
Change in fund balances	(25,947)	(35,649)	(61,596)	(87,839)
<b>Fund balances:</b>				
Beginning of year	83,822	258,358	342,180	430,019
End of year	<u>\$ 57,875</u>	<u>\$ 222,709</u>	<u>\$ 280,584</u>	<u>\$ 342,180</u>

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

**Onsted Community Schools**

**Combining Balance Sheet**

**Special Revenue Funds**

**June 30, 2016**

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

	<b>Food Service</b>	<b>Community Service</b>	<b>Total Special Revenue Funds</b>	
			<b>2016</b>	<b>2015</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 12,849	\$ 2,107	\$ 14,956	\$ 17,332
Investments	42,731	-	42,731	61,149
Due from other governmental units	3,500	-	3,500	3,891
Inventory	7,078	-	7,078	8,607
	<u>66,158</u>	<u>2,107</u>	<u>68,265</u>	<u>90,979</u>
Total assets				
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenditures	3,947	-	3,947	598
Unearned revenue	6,443	-	6,443	6,559
	<u>10,390</u>	<u>-</u>	<u>10,390</u>	<u>7,157</u>
Total liabilities				
<b>Fund Balances:</b>				
Nonspendable:				
Inventory	7,078	-	7,078	8,607
Restricted for:				
Food service	48,690	-	48,690	71,975
Assigned	-	2,107	2,107	3,240
	<u>55,768</u>	<u>2,107</u>	<u>57,875</u>	<u>83,822</u>
Total fund balances				
Total liabilities & fund balances	<u>\$ 66,158</u>	<u>\$ 2,107</u>	<u>\$ 68,265</u>	<u>\$ 90,979</u>

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

**Onsted Community Schools**

**Combining Statement of Revenues, Expenditures & Changes In  
Fund Balance**

**Special Revenue Funds**

**For the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015**

	<b>Food Service</b>	<b>Community Service</b>	<b>Total Special Revenue Funds</b>	
			<b>2016</b>	<b>2015</b>
<b>Revenues:</b>				
<b>Local sources:</b>				
Sales, admissions and fees	\$ 265,188	\$ 13,064	\$ 278,252	\$ 286,295
Other	1,339	-	1,339	19,150
Total local sources	266,527	13,064	279,591	305,445
State sources	26,745	-	26,745	29,998
Federal sources	337,398	-	337,398	343,086
Total revenues	630,670	13,064	643,734	678,529
<b>Expenditures:</b>				
Cost of goods sold - net	275,171	-	275,171	270,360
Salaries and wages	175,929	24,929	200,858	205,031
Employee benefits	88,558	10,908	99,466	96,850
Contracted services	19,064	-	19,064	13,657
Travel, workshops and conferences	331	-	331	219
Materials and supplies	23,643	1,360	25,003	27,413
Capital outlay	28,089	-	28,089	10,650
Total expenditures	610,785	37,197	647,982	624,180
Excess (deficiency) of revenues over (under) expenditures	19,885	(24,133)	(4,248)	54,349
<b>Other financing sources (uses):</b>				
Transfers in	-	23,000	23,000	27,380
Transfers out	(44,699)	-	(44,699)	(40,141)
Total other financing sources (uses)	(44,699)	23,000	(21,699)	(12,761)
Change in fund balances	(24,814)	(1,133)	(25,947)	41,588
<b>Fund balances:</b>				
Beginning of year	80,582	3,240	83,822	42,234
End of year	<u>\$ 55,768</u>	<u>\$ 2,107</u>	<u>\$ 57,875</u>	<u>\$ 83,822</u>

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

**Onsted Community Schools**  
**Schedule of Federal Revenues**  
**For the Year Ended June 30, 2016**

Reconciliation of Fund Financial Statement Federal Revenue to Expenditures subject to Uniform Guidance	
Federal revenues per fund financial statements	\$ 1,149,580
Less: exempt federal tax credit on QSCB bonds	<u>(566,698)</u>
Expenditures subject to Uniform Guidance	<u><u>\$ 582,882</u></u>

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

**Onsted Community Schools**  
**Schedule of Changes in Assets and Liabilities**  
**Student Activity Fund**  
**For the Year Ended June 30, 2016**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Assets:</b>				
Cash and cash equivalents	\$75,639	\$161,932	\$142,781	\$94,790
<b>Total Assets</b>	<u>\$75,639</u>	<u>\$161,932</u>	<u>\$142,781</u>	<u>\$94,790</u>
<b>Liabilities:</b>				
Due to student groups	\$75,639	\$161,932	\$142,781	\$94,790
<b>Total Liabilities</b>	<u>\$75,639</u>	<u>\$161,932</u>	<u>\$142,781</u>	<u>\$94,790</u>

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

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

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Onsted Community Schools' basic financial statements and have issued my report thereon dated September 19, 2016.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, 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 a certain deficiency in internal control, 2016-001 described as follows, that I consider to be a significant deficiency.

Your partner in financial statement auditing and all things accounting.

Phone: 517.945.3312 - Meredith@MeredithFrancis.com

To the Board of Education  
Onsted Community Schools  
Onsted, Michigan

### **Finding 2016-001 Preparation of Financial Statements in Accordance with GAAP**

**Criteria.** The District's management is responsible for preparation of its annual financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), which requires internal controls over 1) recording, processing and summarizing accounting transactions and 2) reporting of financial statements, including related footnotes.

**Condition.** The annual financial statements for the year ended June 30, 2016, required the assistance of the auditors for preparation of its financial statement footnotes in accordance with GAAP; external auditors cannot be part of the District's internal controls.

**Cause.** The District considers auditor assistance more cost effective than the time and expertise necessary to perform this function internally.

**Effect.** The District lacks proper internal controls over financial statement preparation in accordance with GAAP.

**View of Responsible Officials.** The District's management and Board of Education carefully review and approve the financial statements drafted with assistance of the auditor prior to issuance.

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

### **Onsted Community Schools' Response to Findings**

Onsted Community Schools' response to the findings identified in my audit is described above. 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 Francis, CPA*

Adrian, Michigan  
September 19, 2016