

Onsted Community Schools
Financial Statements
(with required supplementary and
additional supplementary information)
Year Ended June 30, 2018



Onsted Community Schools

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Independent Auditor's Report

To the Board of Education
Onsted Community Schools
Onsted, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Onsted Community Schools as of and for the year ended June 30, 2018, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Your partner in financial statement auditing and all things accounting.

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To the Board of Education
Onsted Community Schools
Onsted, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Onsted Community Schools as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Onsted Community Schools' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 liability and schedule of contributions, related to pensions and other postemployment benefits, on pages 4 through 12 and pages 49 through 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Onsted Community Schools' basic financial statements. The combining fund financial statements and schedule of changes in assets and liabilities for the student activity fund are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of federal revenues is presented for purposes of additional analysis as requested by the State of Michigan Department of Education, and is also not a required part of the basic financial statements.

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

To the Board of Education
Onsted Community Schools
Onsted, Michigan

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of the Onsted Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Onsted Community Schools' internal control over financial reporting and compliance.

Meredith Francis, CPA, P.C.

Adrian, Michigan
September 17, 2018

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2018**

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, 2018.

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

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

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

Fund Financial Statements

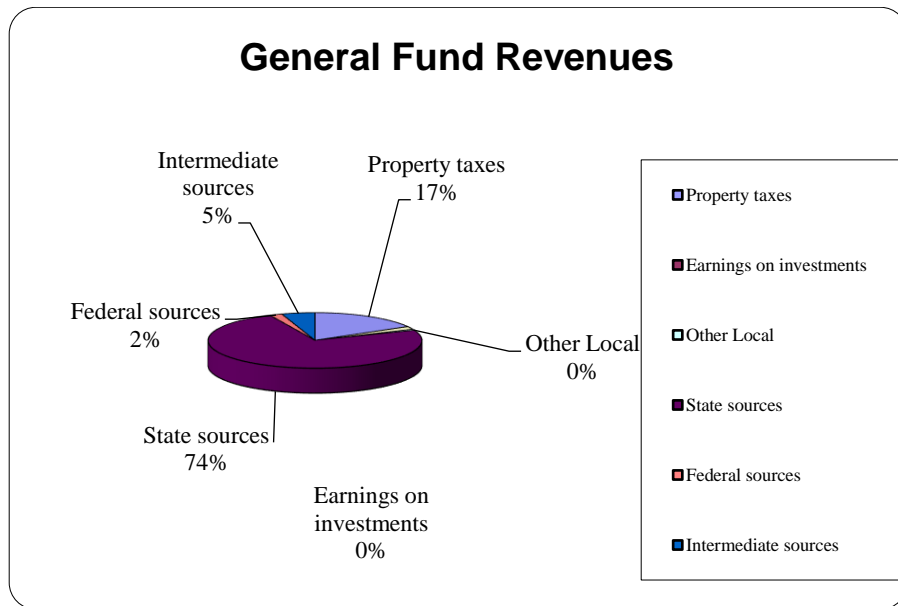
For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available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

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

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2018**

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

The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of \$7,631 per student (an increase of \$120 from the previous year):

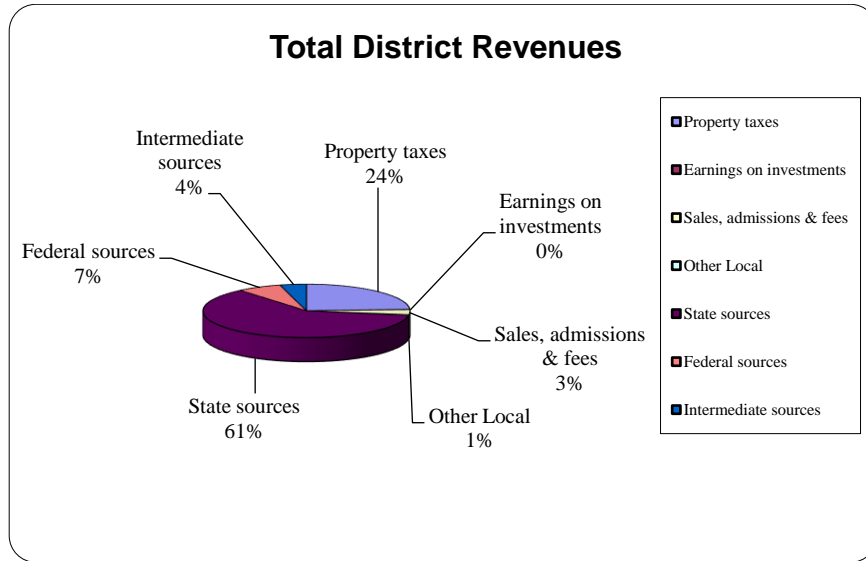


Local revenue increased from the previous year due to increased property tax revenues. State revenue decreased from the previous year due to loss of students. Federal revenues decreased due to changes in Title I and Title II-A funding. Intermediate revenue decreased due to changes in funding of Special Education.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. A January 2016 Michigan House Fiscal Agency report notes that school revenues, adjusted for inflation, are 6% less today than in 2000. The uncertainty of student foundation funding levels, as well as funding for other K-12 education programs, reflects the economic difficulties faced by the State of Michigan, as well as the budget priorities of the state's legislators.

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2018**

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



Government-wide Financial Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the District's overall health, consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities. The District's main goal is to provide services to our students, so also consider the quality of education provided, breadth of curriculum offered, and the safety of the schools.

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, 2018**

Summary of Net Position

	Governmental Activities	
	2018	2017
Current assets	\$ 4,363,832	\$ 4,313,148
Capital assets, net of depreciation	26,549,340	26,143,124
Total assets	<u>30,913,172</u>	<u>30,456,272</u>
Deferred outflow of resources	533,914	2,293,174
Total assets and deferred outflows of resources	<u>31,447,086</u>	<u>32,749,446</u>
Noncurrent liabilities	18,506,739	17,102,103
Other liabilities	1,557,131	1,362,033
Net pension liability	19,915,149	19,330,920
Total liabilities	<u>39,979,019</u>	<u>37,795,056</u>
Deferred inflows of resources	229,388	1,757,860
Total liabilities and deferred inflows of resources	<u>40,208,407</u>	<u>39,552,916</u>
Net position:		
Net investment in capital assets	8,434,032	9,211,416
Restricted for:		
Debt service	832,871	794,784
Capital projects	163,781	202,214
Unrestricted	(22,547,924)	(17,011,884)
Total net position	<u><u>\$ (13,117,240)</u></u>	<u><u>\$ (6,803,470)</u></u>

Analysis of Financial Position

During the fiscal year ended June 30, 2018, the District's net position increased by \$349,093. This compares to a \$826,251 increase in net position during the fiscal year ended June 30, 2017. Significant factors affecting net position 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, 2018, \$854,404 was recorded for depreciation expense. This compares to \$818,661 for the year ended June 30, 2017.

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2018**

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2018, \$1,260,620 of expenditures were capitalized and recorded as assets of the District, and there were deletions of \$158,014. This compares to capitalized expenditures of \$137,113 and deletions of \$35,561 for the fiscal year ended June 30, 2017. 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 building upgrades and equipment installed during the energy project.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$406,216 for the fiscal year ended June 30, 2018.

3. Recording of Pension Liability

Employees of Onsted Community Schools are members of the Michigan Public School Employees Retirement System (MPERS). Due to a 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 0.07685018% and amounts to \$19,915,149 as of the end of the plan 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 position. Onsted's proportionate share of pension expense is \$1,889,914 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.

4. Recording of Other Postemployment Benefits (OPEB) Liability

A new requirement from the Governmental Accounting Standards Board (GASB 75) requires each district in the state of Michigan to disclose its proportionate share of retiree health insurance liability. Also, there are additional requirements for benefits-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 OPEB liability for the state is 0.07662101% and amounts to \$6,785,151 as of the end of the plan 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 position. Onsted's proportionate share of OPEB expense is \$453,924 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, 2018**

Results of Operations

For the fiscal year ended June 30, 2018, the results of operations, on a District-wide basis, were:

		Governmental Activities	
		2018	2017
Program revenues:			
General revenues:			
Property taxes, levied for general purposes		2,186,220	2,122,000
Property taxes, levied for debt service		1,655,793	1,629,197
Investment earnings		31,147	19,320
State sources-unrestricted		9,317,894	9,546,854
Intermediate sources		653,991	660,228
Other		85,412	54,239
	Total general revenues	<u>13,930,457</u>	<u>14,031,838</u>
Program revenues:			
Charges for services		474,711	387,930
Capital grants		516,123	543,576
Operating grants		998,739	896,267
	Total program revenues	<u>1,989,573</u>	<u>1,827,773</u>
	Total revenues	<u>15,920,030</u>	<u>15,859,611</u>
Expenses:			
Instruction		8,653,176	8,294,406
Support services		4,260,050	3,965,903
Food services		554,547	594,420
Community services		40,289	42,738
Athletics		417,662	474,233
Interest expense		790,809	842,999
Unallocated depreciation		854,404	818,661
	Total expenses	<u>15,570,937</u>	<u>15,033,360</u>
Change in net position		349,093	826,251
Net position, beginning of year		<u>(13,466,333)</u>	<u>(7,629,721)</u>
Net position, end of year		<u><u>\$ (13,117,240)</u></u>	<u><u>\$ (6,803,470)</u></u>

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2018**

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 2017 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2018. Property tax revenues for the 2017-18 fiscal year were \$2,186,220 for general purposes.

2. State sources

The State of Michigan provides a \$7,631 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 2017-18 school year, the District blended count was 1,318.77. This included a loss of 68 students from the previous year's blended count.

4. Salaries and benefits

A significant portion of the District's expenses are related to compensation of employees. Due to contracts in place with teachers, support staff and administration, those costs increased for support staff due to a 2% pay increase. Teachers and administrators received performance pay based on evaluation but no step increases. Teachers rated either effective or highly effective also received an increase of \$2,000 (14 years seniority or less) or \$1,500 (15 years seniority or more). Health insurance costs increased for teachers, administrators and for support staff, even though some of that cost was offset by insurance caps built into the contracts. Retirement costs increased from 36.64% of payroll to 36.88% 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, 2018**

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 2018 and June 2018 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 of \$220,862 to the fund balance, the actual results of the year show a decrease of \$169,402.

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 \$13,269,825 versus the final budget of \$13,233,947. Major components of revenue and their original versus final projections are discussed below.

- Property tax revenues increased due to property value changes.
- State Aid was decreased due to student loss and grant adjustments from the State including grants for Bilingual Education, Early Literacy Targeted Instruction, Financial Analytic Tools, MPERS cost offset, At Risk funding and Dual Enrollment Incentives.
- Federal revenues were increased due to revised grant amounts for Title I and Title II-A including carryover, as well as a new grant for Title IV-A.
- Intermediate revenues were increased due to an increase in Medicaid Fee for Service revenue, and sale of capital assets resulting from an online auction of surplus equipment.

Expenses: The original budget for expenditures was \$13,269,825 versus the final budget figure of \$13,454,809. The main reason for the increase in expenditures was recording expenditures for a one-time state aid deposit of \$152,929.69 that required matching expenditures for retirement costs.

The District completed an energy savings project in 2017-18 including LED lighting district-wide, HVAC replacements and controls, roof repairs, domestic hot water system upgrade, mechanical improvements, fire alarm system replacement, additional security cameras, building envelope installations, a solar energy project, and electric rate structure change. The District worked with Energy Systems Group on this project and it is being funded by zero interest QZAB bonds over a 15-year period. Significant utility cost savings were achieved due to the project and are expected to continue.

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.

**Onsted Community Schools
Management's Discussion and Analysis
June 30, 2018**

Capital Asset and Debt Administration

Capital Assets -

At July 1, 2017, the District had \$26,143,124 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of \$1,260,620 resulted from building upgrades and equipment purchases related to the energy project. Deletions of \$158,014 were recorded for equipment sold at auction. More detail is presented in the notes to the financial statements.

Long-Term Debt -

At June 30, 2018, the District's long-term debt obligations included \$18,052,023 in bonds payable, and \$255,115 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 2018 and beyond.
- The State of Michigan has adopted a budget for 2018-19. The District's budget was adopted with an estimated foundation grant of \$7,871 per student based on information known at the time, and an estimated blended student count of 1,270. These numbers may change based on the actual student count.
- Because the District has chosen to become a School of Choice district, enrollment may increase as students from neighboring districts take advantage of the choice opportunity. Schools of Choice was created in Section 105 of the State Aid Act and allows pupils who are not residents of Onsted School District but are residents of the Lenawee Intermediate School District the option to apply for enrollment. In the 2005-2006 school year, the Board of Education expanded the choice opportunity to contiguous counties under Section 105(c). There is a possibility that this will generate funds.
- The District is in the process of applying for a State of Michigan safety grant of up to \$250,000. If the grant is awarded, the District plans to contract with Lockout, LLC for a Smart Boot system. This would include a boot for each classroom door, connected Bluetooth device applications, connected LED lighting, and reinforced glass entryways. In the event of a lockdown, once a Smart Boot is removed, a connected Bluetooth device is activated, or gunfire is detected, the system triggers connected devices, including smart phones, and 911 is called. In addition, Connected LED lighting visually blink "red" in strategic locations throughout the school. Instant text message alerts travel through the smart grid to keep staff informed of critical information "real time" within an incident. Green LED lighting shows that the situation has been resolved.

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, 2018 and 2017

	Governmental Activities	
	2018	2017
Assets:		
Cash and cash equivalents	\$ 1,054,301	\$ 1,044,820
Investments	1,452,129	1,277,969
Accounts receivable	28,499	67,756
Due from other governmental units	1,822,525	1,898,686
Inventory	5,578	6,049
Prepays	800	17,868
Capital assets not being depreciated	176,792	176,792
Capital assets, net of accumulated depreciation	26,372,548	25,966,332
Total assets	<u>30,913,172</u>	<u>30,456,272</u>
Deferred outflows of resources:		
Deferred charge on refunding	136,316	170,395
Deferred pension amounts	3,919,144	2,122,779
Deferred other postemployment benefit amounts	397,598	-
Total assets and deferred outflows of resources	<u>35,366,230</u>	<u>32,749,446</u>
Liabilities:		
Accounts payable and accrued expenses	253,954	146,770
Accrued salaries and related items	951,489	945,180
Interest payable	120,172	130,709
Unearned revenue	231,516	139,374
Noncurrent liabilities:		
Due within one year	1,705,444	1,470,581
Due in more than one year	16,801,295	15,631,522
Net pension liability	19,915,149	19,330,920
Net other postemployment benefit liability	6,785,151	-
Total liabilities	<u>46,764,170</u>	<u>37,795,056</u>
Deferred inflows of resources:		
Deferred pension amounts	1,489,912	1,757,860
Deferred other postemployment benefit amounts	229,388	-
Total liabilities and deferred inflows of resources	<u>48,483,470</u>	<u>39,552,916</u>
Net position:		
Net investment in capital assets	8,434,032	9,459,935
Restricted for:		
Debt service	832,871	794,784
Capital projects	163,781	202,214
Unrestricted	(22,547,924)	(17,260,403)
Total net position	<u>\$ (13,117,240)</u>	<u>\$ (6,803,470)</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, 2018
With Comparative Totals for the Year Ended June 30, 2017**

<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>2018</u>	<u>2017</u>
Governmental activities:						
Instruction	\$ 8,653,176	\$ 10,500	\$ -	\$ 459,019	\$ (8,183,657)	\$ (7,942,144)
Support services	4,260,050	151,794	516,123	175,524	(3,416,609)	(3,227,002)
Food services	554,547	251,139	-	363,492	60,084	28,557
Community services	40,289	8,282	-	704	(31,303)	(31,423)
Athletics	417,662	52,996	-	-	(364,666)	(371,915)
Interest on long term debt	790,809	-	-	-	(790,809)	(842,999)
Unallocated depreciation	854,404	-	-	-	(854,404)	(818,661)
Total governmental activities	<u>15,570,937</u>	<u>474,711</u>	<u>516,123</u>	<u>998,739</u>	<u>(13,581,364)</u>	<u>(13,205,587)</u>
General Revenues:						
Property taxes, levied for general purposes					2,186,220	2,122,000
Property taxes, levied for debt service					1,655,793	1,629,197
Investment earnings					31,147	19,320
State sources					9,317,894	9,546,854
Intermediate sources					653,991	660,228
Other					85,412	54,239
Total general revenues					<u>13,930,457</u>	<u>14,031,838</u>
Change in net position					349,093	826,251
Net position, beginning of year as restated					<u>(13,466,333)</u>	<u>(7,629,721)</u>
Net position, end of year					<u>\$ (13,117,240)</u>	<u>\$ (6,803,470)</u>

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

Onsted Community Schools

Balance Sheets

Governmental Funds

June 30, 2018

With Comparative Totals for June 30, 2017

	General Fund	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds	
					2018	2017
Assets:						
Cash and cash equivalents	\$ 52,077	\$832,871	\$ 163,781	\$ 5,572	\$ 1,054,301	\$ 1,044,820
Investments	1,394,209	-	-	57,920	1,452,129	1,277,969
Accounts receivable	28,499	-	-	-	28,499	67,756
Due from other governments	1,819,109	-	-	3,416	1,822,525	1,898,686
Due from other funds					-	70,000
Inventory	-	-	-	5,578	5,578	6,049
Prepays	800	-	-	-	800	17,868
Total assets	<u>\$ 3,294,694</u>	<u>\$ 832,871</u>	<u>\$ 163,781</u>	<u>\$ 72,486</u>	<u>\$ 4,363,832</u>	<u>\$ 4,383,148</u>
Liabilities:						
Accounts payable and accrued expenditures	253,231	-	-	723	253,954	146,770
Accrued salaries and related items	951,489	-	-	-	951,489	945,180
Due to other funds	-	-	-	-	-	70,000
Unearned revenue	224,504	-	-	7,012	231,516	139,374
Total liabilities	<u>1,429,224</u>	<u>-</u>	<u>-</u>	<u>7,735</u>	<u>1,436,959</u>	<u>1,301,324</u>
Deferred inflows of resources:						
Unavailable revenue	79,383	-	-	-	79,383	83,213
Fund balances:						
Nonspendable:						
Inventory	-	-	-	5,578	5,578	6,049
Prepays	800	-	-	-	800	17,868
Restricted for:						
Food service	-	-	-	58,503	58,503	38,290
Debt service	-	832,871	-	-	832,871	794,784
Capital projects	-	-	163,781	-	163,781	202,214
Assigned	-	-	-	670	670	1,785
Unassigned	1,785,287	-	-	-	1,785,287	1,937,621
Total fund balance	<u>1,786,087</u>	<u>832,871</u>	<u>163,781</u>	<u>64,751</u>	<u>2,847,490</u>	<u>2,998,611</u>
Total liabilities, deferred inflows & fund balances	<u>\$ 3,294,694</u>	<u>\$ 832,871</u>	<u>\$ 163,781</u>	<u>\$ 72,486</u>	<u>\$ 4,363,832</u>	<u>\$ 4,383,148</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Total governmental fund balances	\$ 2,847,490	\$ 2,998,611
Amount reported for governmental activities in the statement of net position are different because.		
Deferred outflows of resources - deferred charge on refunding	136,316	170,395
Deferred outflows of resources - unavailable revenue	79,383	83,213
Deferred outflows of resources - related to pensions	3,919,144	2,122,779
Deferred outflows of resources - related to other postemployment benefits	397,598	
Deferred inflows of resources - related to pensions	(1,489,912)	(1,757,860)
Deferred inflows of resources - related to other postemployment benefits	(229,388)	
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	40,658,202	39,555,596
The accumulated depreciation is	<u>(14,108,862)</u>	<u>(13,412,472)</u>
	26,549,340	26,143,124
Long term liabilities are not due and payable in the current period and are not reported in the funds.		
Bonds payable	(18,251,624)	(16,853,584)
Compensated absences	(255,115)	(248,519)
Proportionate share of the MPSERS net pension liability	(19,915,149)	(19,330,920)
Proportionate share of the MPSERS net OPEB liability	(6,785,151)	
Accrued interest is not included as a liability in governmental funds, it is recorded when paid	<u>(120,172)</u>	<u>(130,709)</u>
Net position of governmental activities	<u><u>\$(13,117,240)</u></u>	<u><u>\$(6,803,470)</u></u>

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, 2018
With Comparative Totals for the Year Ended June 30, 2017**

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds	
					2018	2017
Revenues:						
Local sources:						
Property taxes	\$ 2,186,220	\$1,655,793	\$ -	\$ -	\$ 3,842,013	\$ 3,751,197
Investment earnings	13,589	8,446	\$9,112	-	31,147	19,320
Sales, admissions and fees	215,290	-	-	259,421	474,711	387,930
Other	82,755	-	-	2,309	85,064	82,553
Total local sources	2,497,854	1,664,239	9,112	261,730	4,432,935	4,241,000
State sources	9,693,568	1,341	-	27,719	9,722,628	9,831,459
Federal sources	250,844	514,782	-	335,773	1,101,399	1,109,339
Intermediate sources	657,821	-	-	-	657,821	665,491
Total revenues	13,100,087	2,180,362	9,112	625,222	15,914,783	15,847,289
Expenditures:						
Current:						
Instruction	8,650,505	-	-	-	8,650,505	8,291,421
Supporting services	4,033,804	-	-	-	4,033,804	3,964,487
Food service	-	-	-	556,198	556,198	593,658
Community service	892	-	-	39,397	40,289	42,738
Athletics	417,619	-	-	-	417,619	474,004
Other	-	-	1,742,606	-	1,742,606	60,731
Capital outlay	38,658	-	1,221,962	-	1,260,620	137,113
Debt service:						
Interest	37,325	788,925	-	-	826,250	881,632
Other	-	3,350	-	-	3,350	3,669
Total expenditures	13,178,803	792,275	2,964,568	595,595	17,531,241	14,449,453
Excess (deficiency) of revenues over (under) expenditures	(78,716)	1,388,087	(2,955,456)	29,627	(1,616,458)	1,397,836
Other financing sources (uses):						
Prior year expenditures	(763)	-	-	-	(763)	(4,240)
Sale of school property	9,077	-	-	-	9,077	17,585
Proceeds from bond issuance	-	-	2,917,023	-	2,917,023	-
Redemption of principal	(110,000)	(1,350,000)	-	-	(1,460,000)	(1,425,000)
Transfers in	41,000	-	-	30,000	71,000	142,667
Transfers out	(30,000)	-	-	(41,000)	(71,000)	(142,667)
Total other financing sources (uses)	(90,686)	(1,350,000)	2,917,023	(11,000)	1,465,337	(1,411,655)
Change in fund balances	(169,402)	38,087	(38,433)	18,627	(151,121)	(13,819)
Fund balances:						
Beginning of year	1,955,489	794,784	202,214	46,124	2,998,611	3,012,430
End of year	\$ 1,786,087	\$ 832,871	\$ 163,781	\$ 64,751	\$ 2,847,490	\$ 2,998,611

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, 2018 and 2017

	2018	2017
Change in fund balances - total governmental funds	\$ (151,121)	\$ (13,819)
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	(854,404)	(818,661)
Capital outlay	1,260,620	137,113
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	130,709	144,439
Accrued interest payable, end of year	(120,172)	(130,709)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.		
Proceeds from bond issuance	(2,917,023)	-
Repayment of principal	1,460,000	1,425,000
Amortization of defeasance of bond interest	(34,079)	(34,079)
Amortization of bond premium	69,395	69,395
Amortization of bond discount	(10,412)	(10,413)
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	79,383	83,213
Deferred inflows-Unearned revenue, beginning of year	(83,213)	(88,476)
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	19,330,920	19,388,066
Net pension liability, end of year	(19,915,149)	(19,330,920)
Net other postemployment benefit liability, beginning of year	\$ 7,156,831	
Net other postemployment benefit liability, end of year	(6,785,151)	
Deferred inflows-pension expense, beginning of year	1,757,860	1,473,592
Deferred inflows-pension expense, end of year	(1,489,912)	(1,757,860)
Deferred inflows-other postemployment benefits expense, beginning of year	-	
Deferred inflows-other postemployment benefits expense, end of year	(229,388)	
Deferred outflows-pension expense, beginning of year	(2,122,779)	(1,839,802)
Deferred outflows-pension expense, end of year	3,919,144	2,122,779
Deferred outflows-other postemployment benefits expense, beginning of year	(493,968)	
Deferred outflows-other postemployment benefits expense, end of year	397,598	
Accrued compensated absences, beginning of year	248,519	255,912
Accrued compensated absences, end of year	(255,115)	(248,519)
Change in net position of governmental activities	\$ 349,093	\$ 826,251

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, 2018 and 2017

		Student Activities Fund	
		2018	2017
Assets:			
Cash and cash equivalents		\$ 80,742	\$ 87,766
Total assets		80,742	87,766
 Liabilities:			
Due to student groups and activities		80,742	87,766
Total liabilities		\$ 80,742	\$ 87,766

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

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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, 2018

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, 2018

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, 2018

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. They are the deferred charges on refunding bonds and the deferred charges for pension expense and other postemployment benefits 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. Deferred charges on pension expense and other postemployment benefits expense are used to calculate future years' pension expense.

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, 2018

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 inflows from pension expense and other postemployment benefits are 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 non-spendable, restricted, assigned or unassigned. The term non-spendable 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 non-spendable 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 (MPERS or the System) and additions to/deductions from MPERS' fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

Postemployment Benefits Other than Pensions

For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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, 2018

Note 1. Summary of Significant Accounting Policies (Concluded)

D. Other Accounting Policies (Concluded)

Subsequent Events

Management has reviewed subsequent events up to September 17, 2018, the date of this report. The financial statements were available to be issued on the same date.

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, 2018, 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	2.180
Principal and Non-Principal Residence Exemption	0.930
Principal and Non-Principal Residence Exemption	0.630

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, 2018, the foundation allowance was based on pupil membership counts taken in February 2017 and September of 2017.

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 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governments.

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

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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, Debt Service and Capital Projects 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, 2018. The District does not consider these amendments to be significant.
7. There were no functions exceeding budget on the General Fund, Debt Fund nor Capital Projects Fund Budgetary Comparison Schedules. Total expenditures did not exceed the amount appropriated in any fund.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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, 2018, \$2,089,744 of the District's bank balance of \$2,589,744 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 2,089,744
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Investments

The District's investments include deposits in Michigan Cooperative Liquid Assets Securities System (CLASS). Michigan CLASS is a Participant controlled trust available only to Michigan municipalities, school districts and public agencies for the purpose of enabling such entities to cooperate in the investment of their available funds. Michigan CLASS operates like a money market mutual fund with each share valued at \$1.00.

The District also invests in the Michigan Liquid Asset Fund (MILAF) and MILAF+ MAX Class. 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.

The District held the following investments at June 30, 2018:

	Weighted Average Maturity	Fair Value	Standard & Poor's Rating
Michigan Liquid Asset Fund	53.00	\$ 7,403	*
Michigan CLASS	52.00	117,159	AAAm
		\$ 124,562	
	*S&P Rating	Percentage of Portfolio	
	AA+	12.19%	
	A-1+	41.29%	
	A-1	41.26%	
	Exempt	5.26%	

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 CLASS investment is rated AAAM by Standard and Poor's Ratings Services. The District's MILAF investment consists of the MAX Class of the MILAF+ portfolio and is rated as classified above by Standard and Poor's Ratings Services.

Concentration of credit risk: The risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy is to diversify investments to minimize the impact of potential losses. As of June 30, 2018, concentrations of 5% or higher were 6% of investments at MILAF and 94% of investments at Michigan CLASS.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 3. Deposits and Investments (Concluded)

Investments (Concluded)

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 securities underlying the CLASS investment was 52 days. The weighted average maturity of the MILAF portfolio at September 30, 2017 was 53 days.

Valuation of Investments

Michigan CLASS Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at cost, which approximates market value.

MILAF+ 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, each investment agency discloses the fair value of the 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.

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.

There have been no significant changes in valuation techniques used in valuing any such positions held by Michigan CLASS since the beginning of the fiscal year. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The inputs used as of June 30, 2018 to value Michigan CLASS's investments in securities and other financial instruments was categorized as Level 2. There were no transfers between Level 1 and Level 2 during the year ending June 30, 2018.

MILAF 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, 2017.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 4. Receivables

Receivables as of June 30, 2018 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	\$ 28,499	\$ -	\$ 28,499
Due from other governments	1,819,109	3,416	1,822,525
	<u>\$ 1,847,608</u>	<u>\$ 3,416</u>	<u>\$ 1,851,024</u>

Note 5. Capital Assets

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Assets not being depreciated				
Land	\$ 176,792			\$ 176,792
Other capital assets:				
Land improvements	539,948			539,948
Buildings and additions	36,957,614	600,150		37,557,764
Equipment	705,761	660,470	68,500	1,297,731
Vehicles other than buses	89,497		21,909	67,588
Buses	1,085,984		67,605	1,018,379
Depreciable capital assets	39,378,804	1,260,620	158,014	40,481,410
Less: accumulated depreciation				
Land improvements	328,593	22,438		351,031
Buildings and additions	11,607,446	716,179		12,323,625
Equipment	520,624	52,477	(68,500)	504,601
Vehicles other than buses	55,695	6,942	(21,909)	40,728
Buses	900,114	56,368	(67,605)	888,877
Total accumulated depreciation	13,412,472	854,404	(158,014)	14,108,862
Net depreciable capital assets	25,966,332	406,216	-	26,372,548
Net capital assets	<u>\$ 26,143,124</u>	<u>\$ 406,216</u>	<u>\$ -</u>	<u>\$ 26,549,340</u>

Depreciation for the fiscal year ended June 30, 2018 and 2017 amounted to \$854,404 and \$818,661, 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, 2018

Note 6. Short-Term Debt

The District issued state aid anticipation notes payable in the amount of \$500,000, with an interest rate of 1.54%, 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 years ended June 30, 2018 and 2017 was \$4,834 and \$2,897, respectively.

Activity for the year ended June 30, 2018 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 issued bonds of \$2,917,023, dated September 15, 2017, as limited tax general obligations, secured by the full faith and credit of the District. The proceeds were used for HVAC and water conservation upgrades, lighting retrofit/replacement, roof replacement, fire alarm replacement and building envelope improvements. These Qualified Zone Academy Bonds are interest free to the District and will mature as follows:

<u>Year Ended June 30,</u>	<u>Principal Due Sept 26</u>	<u>Year Ended June 30,</u>	<u>Principal Due Sept 26</u>	<u>Year Ended June 30,</u>	<u>Principal Due Sept 26</u>
2019	\$ 194,468	2024	\$ 194,468	2029	\$ 194,468
2020	194,468	2025	194,468	2030	194,468
2021	194,468	2026	194,468	2031	194,468
2022	194,468	2027	194,468	2032	194,468
2023	194,468	2028	194,468	2033	194,471
	<u>\$ 972,340</u>		<u>\$ 972,340</u>		<u>\$ 972,343</u>

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 2017. The interest expense related to these bonds for the year ended June 30, 2018 and 2017 was \$142,200 and \$163,369, respectively.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 7. Long-Term Debt (Continued)

A schedule of the 2014 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2019	4.00%	\$ 680,000	\$ 58,100	\$ 58,100	\$ 796,200
2020	4.00%	710,000	44,500	44,500	799,000
2021	4.00%	740,000	30,300	30,300	800,600
2022	4.00%	775,000	15,500	15,500	806,000
		<u>\$ 2,905,000</u>	<u>\$ 148,400</u>	<u>\$ 148,400</u>	<u>\$ 3,201,800</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, 2018 and 2017 was \$42,000 and \$42,000, respectively.

A schedule of the 2011 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2028	3.500%	\$ 1,200,000	\$ 21,000	\$ 21,000	\$ 1,415,675
		<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, 2018

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, 2018 and 2017 was \$604,725 and \$634,475, respectively.

A schedule of the 2010 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2019	4.750%	\$ 700,000	\$ 286,088	\$ 286,088	\$ 1,272,175
2020	4.875%	700,000	269,463	269,463	1,238,925
2022	5.200%	1,400,000	234,200	234,200	1,868,400
2023			216,000	216,000	
2024	5.550%	3,000,000	174,375	174,375	3,348,750
2025			132,750	132,750	
2026			88,500	88,500	
2027	5.900%	4,500,000	44,250	44,250	4,588,500
		<u>\$ 10,300,000</u>	<u>\$ 1,698,025</u>	<u>\$ 1,698,025</u>	<u>\$ 12,316,750</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, 2018 and 2017 was \$37,325 and \$41,788, respectively.

A schedule of the 2008 bond issue is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
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>\$ 730,000</u>	<u>\$ 52,550</u>	<u>\$ 52,550</u>	<u>\$ 835,100</u>

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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, 2018.

	<u>Total Bonds</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2017	\$ 16,595,000	\$ 248,519	\$ 16,843,519
Additions	2,917,023	17,177	2,934,200
Deletions	<u>(1,460,000)</u>	<u>(10,581)</u>	<u>(1,470,581)</u>
Balance June 30, 2018	18,052,023	255,115	18,307,138
Less: current portion	<u>1,699,468</u>	<u>5,976</u>	<u>1,705,444</u>
Total due after one year	<u>\$ 16,352,555</u>	<u>\$ 249,139</u>	<u>\$ 16,601,694</u>

Debt Service requirements of governmental activities at June 30, 2018 were as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,699,468	721,025	\$ 2,420,493
2020	1,739,468	655,263	2,394,731
2021	1,079,468	587,000	1,666,468
2022	2,524,468	514,838	3,039,306
2023	364,468	440,075	804,543
2024-2028	9,672,340	921,750	10,594,090
2029-2033	<u>972,343</u>	<u>-</u>	<u>972,343</u>
	<u>\$18,052,023</u>	<u>\$ 3,839,950</u>	<u>\$ 21,891,973</u>

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 8. Interfund Balances and 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 and capital projects funds 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	\$ 41,000	General	\$ 30,000
Nonmajor	<u>30,000</u>	Nonmajor	<u>41,000</u>
Totals	<u>\$ 71,000</u>		<u>\$ 71,000</u>

Note 9. Employee Retirement System Pension 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 on the ORS website at www.michigan.gov/orsschools.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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

Benefits Provided

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

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

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

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

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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

Pension Reform 2012 (Concluded)

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

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

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

Pension Reform 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. This law establishes a new hybrid plan for Michigan public school employees who first work on or after February 1, 2018. This plan is similar to the Pension Plus retirement plan established in 2010 (and changed again in 2012) in that it will have both a pension component and a savings component. Eligibility for pension benefits remains the same as Pension Plus at 60 years old with at least 10 years of service. Contributions are made in the savings component by both the employer and employee and are deposited into a 401(k) and/or 457 tax deferred account.

An employee must affirmatively elect the new hybrid plan to participate. If the employee makes no choice, as mentioned above, the default set by the law means the employee will be enrolled in the DC plan. The Office of Retirement Services will provide each employee with a summary of the benefit options available.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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

Regular Retirement

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

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.0%	15.27%

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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

Required contributions to the pension plan from Onsted Community Schools were \$1,802,545 for the year ended September 30, 2017. The District's contribution to MPSERS under all pension plans for the year ended June 30, 2018 was \$1,818,853. 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, 2018, the District reported a liability of \$19,915,149 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. 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, 2017, the District's proportion was .07685018%, which was a decrease of .000631% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$1,889,914. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 173,076	\$ 97,719
Changes of assumptions	2,181,863	-
Net difference between projected and actual earnings on pension plan investments	-	952,075
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	1,294	440,118
Employer contributions subsequent to the measurement date	1,562,911	
 Total	\$ 3,919,144	\$ 1,489,912

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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)

Contributions subsequent to the measurement date 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, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Plan Year Ended September 30,</u>	<u>Amount</u>
2018	\$ 20,618
2019	(4,648)
2020	342,115
2021	11,185

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date:	September 30, 2016
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	7.5%
- 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. This assumption was first used for the September 30, 2014 valuation of the System. 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, 2018

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, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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 is 4.5188.*
- *Recognition period for assets in years is 5.000.*
- *Full actuarial assumptions are available in the 2017 MPERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

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, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
TOTAL	100.0%	

*Long term rates of return are net of administrative expenses and 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

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

Discount Rate

A discount rate of 7.5% 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 7.5% (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 7.5% (7.0% for the Hybrid Plan), as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%
\$ 25,942,815	\$ 19,915,149	\$ 14,840,238

Michigan Public School Employees’ Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan

Plan Description

The Michigan Public School Employees’ Retirement System (System or MPERS) is 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’s health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act (1980 PA 300 as amended).

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

Plan Description (Concluded)

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 on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, 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 retirement healthcare. Any changes to a member's healthcare benefit 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.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

Contributions (Concluded)

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the District were \$596,527 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$6,785,151 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .0007662101 percent, which was an increase of .0000000050 percent from its proportion measured as of October 1, 2016.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

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

For the year ending June 30, 2018, the District recognized OPEB expense of \$453,924. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 72,242
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	157,146
Changes in proportion and differences between employer contributions and proportionate share of contributions	369	-
Employer contributions subsequent to the measurement date	397,229	
 Total	<u>\$ 397,598</u>	<u>\$ 229,388</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Plan Year Ended September 30,</u>	<u>Amount</u>
2018	\$ (55,350)
2019	(55,350)
2020	(55,350)
2021	(55,350)
2022	(7,619)

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.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

Actuarial Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12

Mortality: RP-2000 Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. 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.

Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 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 OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: [5.4744 for non-university employers or 1.4186 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
TOTAL	<u>100.0%</u>	

*Long term rates of return are net of administrative expenses and 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the discount rate

The following presents the District’s proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease	Current Discount	1% Increase
6.5%	Rate	8.5%
6.5%	7.5%	8.5%
\$ 7,947,373	\$ 6,785,151	\$ 5,798,789

Sensitivity of the District’s proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the District’s proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District’s proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare	1% Increase
6.5%	Cost Trend Rate	8.5%
6.5%	7.5%	8.5%
\$ 5,746,111	\$ 6,785,151	\$ 7,964,909

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Note 11. 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, 2018.

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, 2018 or any of the prior three years.

Onsted Community Schools

Notes to Financial Statements

June 30, 2018

Note 12. Operating Leases

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

MT Business Technologies, Inc. for copiers and color printers for \$6,267 per month beginning May 2015, extending to June 2020. The District is also obligated by a monthly maintenance agreement.

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

A schedule of payments follows:

<u>Year ended June 30,</u>	<u>MT Business Technologies</u>	<u>Neopost USA Company</u>	<u>Total</u>
2019	\$ 75,203	\$ 1,510	\$ 76,713
2020	37,601	-	37,601
	<u>\$ 112,804</u>	<u>\$ 1,510</u>	<u>\$ 114,314</u>

The rental costs, including maintenance, for the years ended June 30, 2018 and 2017 were \$108,874 and \$109,714, respectively.

Note 13. Net Position Restricted by Enabling Legislation

The government-wide statement of net position reports \$996,998 of restricted net position at June 30, 2018, all of which is restricted by enabling legislation.

Note 14. New Accounting Standard

For the year ended June 30, 2018 the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued by the GASB in June 2015. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the Statement of Net Position any net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers (the District) to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan.

As a result, the beginning net position must be restated to adjust for the beginning balance of the net OPEB liability as follows:

Net position as previously stated at July 1, 2017	\$ (6,803,470)
Adoption of GASB Statement 75	
Net OPEB liability	(7,156,831)
Deferred outflows	<u>493,968</u>
Net position as restated at July 1, 2017	<u>\$ (13,466,333)</u>

Required Supplementary Information

Onsted Community Schools
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$2,353,063	\$ 2,534,981	\$2,497,854	\$ (37,127)
State sources	9,810,586	9,719,425	9,693,568	(25,857)
Federal sources	250,848	274,417	250,844	(23,573)
Intermediate sources	685,966	655,024	657,821	2,797
Total revenues	<u>13,100,463</u>	<u>13,183,847</u>	<u>13,100,087</u>	<u>(83,760)</u>
Expenditures:				
Instruction:				
Basic programs	6,648,292	7,002,267	6,950,614	51,653
Added needs	1,663,839	1,709,674	1,699,891	9,783
Total instruction	<u>8,312,131</u>	<u>8,711,941</u>	<u>8,650,505</u>	<u>61,436</u>
Supporting services:				
Pupil	676,072	654,660	651,892	2,768
Instructional staff	155,805	142,953	124,651	18,302
General administration	351,732	377,965	367,289	10,676
School administration	641,770	715,396	712,523	2,873
Business services	183,784	189,347	189,044	303
Operations & maintenance	1,254,656	1,156,971	1,131,172	25,799
Pupil transportation	623,311	637,260	633,174	4,086
Technology	213,967	230,315	224,059	6,256
Athletics	475,685	419,054	417,619	1,435
Community services	2,522	2,200	892	1,308
Total support services	<u>4,579,304</u>	<u>4,526,121</u>	<u>4,452,315</u>	<u>73,806</u>
Capital outlay	-	38,658	38,658	-
Debt service:				
Interest	41,788	37,325	37,325	-
Total expenditures	<u>12,933,223</u>	<u>13,314,045</u>	<u>13,178,803</u>	<u>135,242</u>
Excess (deficiency) of revenues over (under) expenditures	167,240	(130,198)	(78,716)	51,482
Other financing sources (uses):				
Prior year expenditures	(4,240)	(764)	(763)	1
Sale of school property		9,100	9,077	(23)
Redemption of principal	(110,000)	(110,000)	(110,000)	-
Transfers in	41,000	41,000	41,000	-
Transfers out	(94,000)	(30,000)	(30,000)	-
Total other financing sources (uses)	<u>(167,240)</u>	<u>(90,664)</u>	<u>(90,686)</u>	<u>(22)</u>
Change in fund balance	-	(220,862)	(169,402)	51,460
Fund balances:				
Beginning of year			<u>1,955,489</u>	
End of year			<u><u>\$1,786,087</u></u>	

Onsted Community Schools
Required Supplementary Information
Budgetary Comparison Schedule
Debt Service Fund
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 1,637,644	\$ 1,667,055	\$ 1,664,239	\$ (2,816)
State sources	1,635	1,342	1,341	(1)
Federal sources	525,000	514,782	514,782	-
Total revenues	2,164,279	2,183,179	2,180,362	(2,817)
Expenditures:				
Debt service:				
Interest	788,926	788,925	788,925	-
Other	3,675	3,350	3,350	-
Total expenditures	792,601	792,275	792,275	-
Excess (deficiency) of revenues over (under) expenditures	1,371,678	1,390,904	1,388,087	(2,817)
Other financing sources (uses):				
Redemption of principal	(1,350,000)	(1,350,000)	(1,350,000)	-
Total other financing sources (uses)	(1,350,000)	(1,350,000)	(1,350,000)	-
Change in fund balance	21,678	40,904	38,087	(2,817)
Fund balances:				
Beginning of year			<u>794,784</u>	
End of year			<u><u>\$ 832,871</u></u>	

Onsted Community Schools
Required Supplementary Information
Budgetary Comparison Schedule
Capital Projects Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 1,125	\$ 9,166	\$ 9,112	\$ (54)
Total revenues	1,125	9,166	9,112	(54)
Expenditures:				
Other	15,000	1,742,606	1,742,606	-
Capital outlay	15,000	1,221,963	1,221,962	1
Total expenditures	30,000	2,964,569	2,964,568	1
Excess (deficiency) of revenues over (under) expenditures	(28,875)	(2,955,403)	(2,955,456)	(53)
Other financing sources (uses):				
Proceeds from bond issuance		2,917,023	2,917,023	-
Total other financing sources (uses)	-	2,917,023	2,917,023	-
Change in fund balance	(28,875)	(38,380)	(38,433)	(53)
Fund balances:				
Beginning of year			202,214	
End of year			\$ 163,781	

Onsted Community Schools
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Reporting unit's proportion of net pension liability (%)	0.07685%	0.07748%	7.93800%	8.00100%
B. Reporting unit's proportionate share of net pension liability	\$ 19,915,149	\$ 19,330,920	\$ 19,388,066	\$ 17,623,084
C. Reporting unit's covered-employee payroll	\$ 6,413,231	\$ 6,449,686	\$ 6,757,703	\$ 6,859,293
D. Reporting units' proportionate share of net pension liability as a percentage of its covered-employee payroll	310.5322%	299.7188%	286.9032%	256.9227%
E. Plan fiduciary net position as a percentage of total pension liability	63.96%	63.01%	63.17%	66.20%

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

Onsted Community Schools
Required Supplementary Information
Schedule of Pension Contributions
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 1,925,836	\$ 1,826,343	\$ 1,817,892	\$ 1,859,768
B. Contributions in relation to statutorily required contributions	\$ 1,925,836	\$ 1,826,343	\$ 1,817,892	\$ 1,859,768
C. Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
D. Reporting unit's covered-employee payroll	\$ 6,553,403	\$ 6,585,921	\$ 6,497,087	\$ 6,914,209
E. Contributions as a percentage of covered-employee payroll	29.3868%	27.7310%	27.9801%	26.8978%

Onsted Community Schools

Required Supplementary Information

Schedule of Proportionate Share of the Other Postemployment Benefit (OPEB) Liability

June 30, 2018

	<u>2017</u>
A. Reporting unit's proportion of net OPEB liability (%)	0.07662%
B. Reporting unit's proportionate share of net OPEB liability	\$ 6,785,151
C. Reporting unit's covered-employee payroll	\$ 6,413,231
D. Reporting units' proportionate share of net OPEB liability as a percentage of its covered-employee payroll	105.7993%
E. Plan fiduciary net position as a percentage of total OPEB liability	36.53%

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

Onsted Community Schools
Required Supplementary Information
Schedule of Other Postemployment Benefit Contributions
June 30, 2018

	2018
A. Statutorily required contributions	\$ 516,604
B. Contributions in relation to statutorily required contributions	\$ 516,604
C. Contribution deficiency (excess)	\$ -
D. Reporting unit's covered-employee payroll	\$ 6,553,403
E. Contributions as a percentage of covered-employee payroll	7.8830%

Onsted Community Schools
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of benefit terms: There were no changes of benefit terms in 2017.

Changes of assumptions: There were no changes of benefit assumptions in 2017.

Additional Supplementary Information

Onsted Community Schools

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2018

With Comparative Totals for June 30, 2017

	Food Service	Community Service	Total Special Revenue Funds	
			2018	2017
Assets:				
Cash and cash equivalents	\$ 4,902	\$ 670	\$ 5,572	\$ 4,271
Investments	57,920	-	57,920	39,362
Due from other governmental units	3,416	-	3,416	3,515
Inventory	5,578	-	5,578	6,049
	<u>71,816</u>	<u>670</u>	<u>72,486</u>	<u>53,197</u>
Total assets				
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenditures	723	-	723	774
Unearned revenue	7,012	-	7,012	6,299
	<u>7,735</u>	<u>-</u>	<u>7,735</u>	<u>7,073</u>
Total liabilities				
Fund Balances:				
Nonspendable:				
Inventory	5,578	-	5,578	6,049
Restricted for:				
Food service	58,503	-	58,503	38,290
Assigned	-	670	670	1,785
	<u>64,081</u>	<u>670</u>	<u>64,751</u>	<u>46,124</u>
Total fund balances				
Total liabilities & fund balances	<u>\$ 71,816</u>	<u>\$ 670</u>	<u>\$ 72,486</u>	<u>\$ 53,197</u>

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

Onsted Community Schools

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

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2018

With Comparative Totals for the Year Ended June 30, 2017

	Food Service	Community Service	Total Special Revenue Funds	
			2018	2017
Revenues:				
Local sources:				
Sales, admissions and fees	\$ 251,139	\$ 8,282	\$ 259,421	\$ 264,659
Other	2,309	-	2,309	2,419
Total local sources	253,448	8,282	261,730	267,078
State sources	27,719	-	27,719	26,521
Federal sources	335,773	-	335,773	342,612
Total revenues	616,940	8,282	625,222	636,211
Expenditures:				
Cost of goods sold - net	242,911	-	242,911	271,829
Salaries and wages	189,103	25,944	215,047	206,970
Employee benefits	93,072	11,910	104,982	104,236
Contracted services	15,164	1,229	16,393	27,868
Travel, workshops and conferences	602	-	602	1,147
Materials and supplies	15,346	314	15,660	23,245
Total expenditures	556,198	39,397	595,595	635,295
Excess (deficiency) of revenues over (under) expenditures	60,742	(31,115)	29,627	916
Other financing sources (uses):				
Transfers in	-	30,000	30,000	30,000
Transfers out	(41,000)	-	(41,000)	(42,667)
Total other financing sources (uses)	(41,000)	30,000	(11,000)	(12,667)
Change in fund balances	19,742	(1,115)	18,627	(11,751)
Fund balances:				
Beginning of year	44,339	1,785	46,124	57,875
End of year	<u>\$ 64,081</u>	<u>\$ 670</u>	<u>\$ 64,751</u>	<u>\$ 46,124</u>

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

Onsted Community Schools
Combining Balance Sheet
Combining Debt Service Funds
June 30, 2018
With Comparative Totals for June 30, 2017

	2014			Total Debt Service Funds	
	Refunding	2010	2011	2018	2017
	Debt Fund	Debt Fund	Debt Fund	2018	2017
Assets:					
Cash and cash equivalents	\$ 300,666	\$ 270,212	\$ 261,993	\$ 832,871	\$ 794,784
Total assets	<u>300,666</u>	<u>270,212</u>	<u>261,993</u>	<u>832,871</u>	<u>794,784</u>
Fund Balance:					
Restricted for:					
Debt Service	<u>300,666</u>	<u>270,212</u>	<u>261,993</u>	<u>832,871</u>	<u>794,784</u>
Total liabilities & fund balances	<u>\$ 300,666</u>	<u>\$ 270,212</u>	<u>\$ 261,993</u>	<u>\$ 832,871</u>	<u>\$ 794,784</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**

Combining Debt Service Funds

**For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017**

	2014 Refunding Debt Fund	2010 Debt Fund	2011 Debt Fund	Totals Debt Service Funds	
				2018	2017
Revenues:					
Local sources					
Property taxes	\$ 963,665	\$ 412,074	\$ 280,054	\$ 1,655,793	\$ 1,629,197
Investment earnings	2,479	5,132	835	8,446	8,068
Total local sources	966,144	417,206	280,889	1,664,239	1,637,265
State sources	-	1,341	-	1,341	1,634
Federal sources	-	514,782	-	514,782	541,942
Total revenues	966,144	933,329	280,889	2,180,362	2,180,841
Expenditures:					
Debt service:					
Interest	142,200	604,725	42,000	788,925	839,844
Other	1,500	1,100	750	3,350	3,669
Total expenditures	143,700	605,825	42,750	792,275	843,513
Excess (deficiency) of revenues over (under) expenditures	822,444	327,504	238,139	1,388,087	1,337,328
Other financing sources (uses):					
Redemption of principal	(650,000)	(700,000)	-	(1,350,000)	(1,320,000)
Total other financing sources/(uses)	(650,000)	(700,000)	-	(1,350,000)	(1,320,000)
Change in fund balances	172,444	(372,496)	238,139	38,087	17,328
Fund balances - July 1	128,222	642,708	23,854	794,784	777,456
Fund balances - June 30	<u>\$ 300,666</u>	<u>\$ 270,212</u>	<u>\$ 261,993</u>	<u>\$ 832,871</u>	<u>\$ 794,784</u>

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

Onsted Community Schools
Combining Balance Sheet
Combining Capital Projects Funds
June 30, 2018
With Comparative Totals for June 30, 2017

	General Capital Projects	2017 Bond	Total Capital Projects Funds	
			2018	2017
Assets:				
Cash and cash equivalents	\$ 89,099	\$ 74,682	\$ 163,781	\$ 132,214
Due from other funds	-	-	-	70,000
Total assets	89,099	74,682	163,781	202,214
Fund Balance:				
Restricted for:				
Assigned	89,099	74,682	163,781	202,214
Total liabilities & fund balances	\$ 89,099	\$ 74,682	\$ 163,781	\$ 202,214

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**

Combining Capital Projects Funds

**For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017**

	General Capital Projects	2017 Bond	Total Capital Projects Funds	
			2018	2017
Revenues:				
Local sources				
Investment earnings	\$ 995	\$ 8,117	\$ 9,112	\$ 1,121
Total revenues	995	8,117	9,112	1,121
Expenditures:				
Other	87,510	1,655,096	1,742,606	60,731
Capital outlay	26,600	1,195,362	1,221,962	30,885
Total expenditures	114,110	2,850,458	2,964,568	91,616
Excess of revenues & other financing sources over expenditures & other financing uses	(113,115)	(2,842,341)	(2,955,456)	(90,495)
Other financing sources (uses):				
Proceeds from bond issuance	-	2,917,023	2,917,023	-
Transfers in	-	-	-	70,000
Total other financing sources (uses)	-	2,917,023	2,917,023	70,000
Change in fund balances	(113,115)	74,682	(38,433)	(20,495)
Fund balances - July 1	202,214	-	202,214	222,709
Fund balances - June 30	\$ 89,099	\$ 74,682	\$ 163,781	\$ 202,214

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, 2018

Reconciliation of Fund Financial Statement Federal Revenue to Expenditures subject to Uniform Guidance	
Revenues from Federal Sources - Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 1,101,399
Less: Federal tax credit on QSCB bonds not required to be reported on the Schedule of Expenditures of Federal Awards and are not covered by the Single Audit Act	<u>(514,782)</u>
Expenditures subject to Uniform Guidance	<u><u>\$ 586,617</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, 2018

	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and cash equivalents	\$ 87,766	\$ 130,345	\$ 137,369	\$ 80,742
Total assets	<u>87,766</u>	<u>130,345</u>	<u>137,369</u>	<u>80,742</u>
Liabilities:				
Due to student groups	87,766	130,345	137,369	80,742
Total liabilities	<u>\$ 87,766</u>	<u>\$ 130,345</u>	<u>\$ 137,369</u>	<u>\$ 80,742</u>

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



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

To the Board of Education
Onsted Community Schools
Onsted, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Onsted Community Schools' basic financial statements and have issued our report thereon dated September 18, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Your partner in financial statement auditing and all things accounting.

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To the Board of Education
Onsted Community Schools
Onsted, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Onsted Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, though we feel it is prudent to report the following other matter, which is described as:

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

Purpose of this Report

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

Meredith Francis, CPA, P.C.

Adrian, Michigan
September 17, 2018