

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2017

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Onaway Area Community Schools

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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Onaway Area Community Schools
Cheboygan and Presque Isle Counties, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of Onaway Area Community Schools, Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents. We did not audit the district's proportionate share of the net pension liability of the Michigan Public School Employees' Retirement System and the related transactions and disclosures. Those balances and disclosures were audited by the State of Michigan Office of the Auditor General whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the district, is based solely on the report of the State of Michigan Office of the Auditor General.

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.

Opinions

In our opinion and the report of the State of Michigan Office of the Auditor General, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund and aggregate remaining fund information of Onaway Area Community Schools, Michigan, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the administration's discussion and analysis and budgetary comparison information on pages 3 through 11 and page 41 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 Onaway Area Community Schools's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2017, on our consideration of Onaway Area Community Schools, Michigan's 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 Onaway Area Community Schools, Michigan's internal control over financial reporting and compliance.



Douglas Wohlberg, CPA
Byron Center, Michigan
October 20, 2017

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

Onaway Area Community School District is a K-12 School District located in Cheboygan and Presque Isle Counties, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Onaway Area Community Schools District Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2017.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements

Fund Financial Statements

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, and the School Service Fund, which is comprised of Food Service, and various Activity accounts.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is 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. Future year's debt obligations are not recorded.

District-Wide Financial Statements:

The District-wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short- and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

Summary of Net Position:

The following summarizes the net position at fiscal year ended June 30, 2017:

	2017	2016
Assets		
Current assets	\$ 2,134,032	\$ 1,618,314
Capital assets	6,983,957	5,793,351
Total assets	9,117,989	7,411,665
Deferred outflows of resources	1,018,349	692,369
Liabilities		
Current liabilities	743,886	753,722
Long-term liabilities	11,708,943	10,421,371
Total liabilities	12,452,829	11,175,093
Deferred inflows of resources	536,815	30,868
Net Position		
Invested in capital assets, net of related debt	4,564,972	4,693,701
Restricted:		
Food service	90,265	96,446
Debt service	103,914	130,146
Capital outlay	421,227	
Unrestricted	(8,033,684)	(8,022,220)
Total net position	\$ (2,853,306)	\$ (3,101,927)

Analysis of Financial Position:

During the fiscal year, the District's total net position increased by \$248,621. A few of the significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position.

For fiscal year, the net increase in accumulated depreciation was \$133,148.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

One way to think of depreciation expense is that in order to maintain net position at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net position the District would have had to capitalize an additional \$133,148 in assets during the year.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

2. Capital Outlay Acquisitions

Capital outlay acquisitions for the fiscal year were \$1,415,263. This represents major improvements in the district's building and equipment that was made possible by issuing a building and site bond in the amount of \$1,850,000.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

3. Capital Outlay Dispositions

During the year, the District did not sell any significant capital assets.

4. Long Term Debt Reduction

The long-term liabilities for the District were increased by \$1,275,311. When liabilities are decreased faster than capital assets depreciate, the result is an increase to net position. This debt increase is a result of the building and site bond.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

Results of Operations:

For the fiscal year the District-wide results of operations were:

	2017	% of Total	2016	% of Total
General Revenues				
Michigan's Foundation Grant Allowance:				
Property taxes levied for general operations	\$ 2,512,399	38.0 %	\$ 2,560,259	36.5 %
State of Michigan Aid, unrestricted	2,183,954	32.9 %	2,224,352	31.6 %
Michigan's Foundation Grant Allowance	4,696,353	70.9 %	4,784,611	68.1 %
Property taxes levied for debt service	539,538	8.2 %	539,072	7.7 %
Other	126,919	1.9 %	42,478	0.6 %
Total General Revenues	5,362,810	81.0 %	5,366,161	76.4 %
Program Revenues				
Charges for services	111,965	1.7 %	104,371	1.5 %
Operating grants - Federal and State	1,144,856	17.3 %	1,547,772	22.1 %
Total Revenues	6,619,631	100.0 %	7,018,304	100.0 %
Expenses				
Instructional and instructional support	3,823,121	59.9 %	4,584,092	66.5 %
Support services	1,863,716	29.3 %	1,818,895	26.4 %
Food services	298,704	4.7 %	285,929	4.2 %
Athletics	112,064	1.8 %	100,625	1.5 %
Interest on long-term debt	49,745	0.8 %	26,980	0.4 %
Depreciation (unallocated)	223,657	3.5 %	65,704	1.0 %
Total Expenses	6,371,007	100.0 %	6,882,225	100.0 %
Increase (Decrease) in Net Position	\$ 248,624		\$ 136,079	

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the fiscal year was \$2,532,795. The non-homestead tax levy decreased by 0.75% over the prior year.

<u>Fiscal Year</u>	<u>Non Homestead Tax Levy</u>	<u>Percent change</u>
2016-2017	\$ 2,532,795	(0.75)%
2015-2016	2,556,615	0.18 %
2014-2015	2,551,911	0.15 %
2013-2014	2,547,994	0.09 %
2012-2013	2,545,810	(0.29)%

The average decrease over the last 5 years was 0.12%.

2. State Of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 90% of current year fall count and 10% of prior year winter count
- c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Onaway Area Community Schools District foundation allowance was \$7,511 per pupil for the school year. This was an increase of \$120 per pupil over the District's previous year foundation allowance.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

Student Enrollment:

The District's student blended enrollment for the year was 627 students. The District's enrollments have generally declined in the past five years. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student Membership</u>	<u>Increase (Decrease) Prior Year</u>
2016-2017	627	(19)
2015-2016	646	(16)
2014-2015	662	(6)
2013-2014	668	(5)
2012-2013	673	(9)

Preliminary student enrollments for 2017-2018 indicate that enrollments will decrease slightly from 2016-2017.

3. Property Taxes levied for Debt Service:

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2016-2017, the District's debt millage levy was 2.10 mills, which generated revenue of \$539,537.

4. Food Service Sales to Students & Adults:

The District's Food Service revenues decreased from the previous year by approximately \$4,440 to \$293,540. School lunch and milk prices were raised from the previous year.

The total expenditures from Food Service operations were greater than total revenues for the year by \$5,164. The food service fund spent approximately \$9,000 on capital outlays during the year.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Revenue Budget vs. Actual 5-Year History

Fiscal Year	Original Budget	Final Budget	Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
2016-2017	\$ 6,027,589	\$ 6,100,244	\$ 6,122,009	1.57 %	0.36 %
2015-2016	5,758,808	6,074,789	6,181,041	7.33 %	1.75 %
2014-2015	5,801,396	6,033,388	6,085,014	4.89 %	0.86 %
2013-2014	5,764,863	5,954,752	5,966,056	3.49 %	0.19 %
2012-2013	5,573,552	5,596,667	5,634,353	1.09 %	0.67 %

General Fund Expenditures Budget vs. Actual 5-Year History

Fiscal Year	Original Budget	Final Budget	Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
2016-2017	\$ 6,068,916	\$ 6,091,655	\$ 5,983,671	1.40 %	1.77 %
2015-2016	5,920,159	6,129,710	6,019,414	(1.68)%	1.80 %
2014-2015	5,997,393	6,208,429	6,175,520	(2.97)%	0.53 %
2013-2014	6,004,834	6,185,403	6,062,172	(0.95)%	1.99 %
2012-2013	6,029,373	6,246,465	6,080,012	(0.84)%	2.66 %

Original vs. Final Budget:

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, Onaway Area Community School District amends its budget twice during the school year. For fiscal year 2016-2017, the budget was amended in March, and the final budget amendments were made in June.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

Change from Original to Final Budget

General Fund Revenues:

Total Revenues Original Budget	\$ 6,027,589
Total Revenues Final Budget	6,100,244
<u>Increase (Decrease) in Budgeted Revenues</u>	<u>\$ 72,655</u>

The District's actual general fund revenues were greater than the final budget by \$21,765, a variance of 0.36%. The final revenue budget reflects the following changes from the original budget:

- Final budgeted local revenues were increased by \$12,498 from the original budget.
- Final budgeted state revenues were increased by \$31,312 from the original. The majority of this increase was due to adjusting for categorical revenues such as Early Literacy Targeted Instruction and the MPSERS UAAL Rate Stabilization.
- Final budgeted federal revenues were decreased by \$18,696. This resulted from the finalization of federal grants.
- Intermediate revenues were increased by \$37,838. The majority of this increase was due to changes in funding from the COP-ESD.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 6,068,916
Total Expenditures Final Budget	6,091,655
<u>Increase (Decrease) in Budgeted Expenditures</u>	<u>\$ 22,739</u>

The District's actual expenditures differed from the final budget by \$107,984 or 1.77%. Some of the significant budget adjustments for the year include:

- 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, Onaway Area Community School District amends its budget twice during the school year. For fiscal year 2016-2017, the budget was amended in March of 2017, and final budget amendments were made in June of 2017.
- The administration made adjustments in March to reflect changes that occurred with the state aid payment. Salaries and benefits were also adjusted to show actual salary amounts, not just forecasted amounts.
- Retirement payments were adjusted to match UAAL payments that were received in state aid revenues.
- Operations and Maintenance costs were lower than expected. Overall this area went down by \$12,249, the two most notable decreases were to natural gas in the amount of \$26,000 and electricity in the amount of \$7,000. The Operations and Maintenance supplies budget was increased so the net savings was only \$12,249.
- Transportation costs went down by \$70,378. Fuel costs alone were down by \$22,764 and repairs parts were down by \$9,000. In addition, salary costs were \$5,407 less than anticipated.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2017

Conclusion:

In anticipation of shrinking revenues in the foreseeable future, the District's management is continuing to minimize expenses in most areas. Public Education has had difficulty maintaining programming over the last several years. Onaway Area Community Schools has been making several attempts to creatively come up with ways to maintain and enhance programming while maintaining financial health.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Onaway Area Community School District Business Office.

BASIC FINANCIAL STATEMENTS

Onaway Area Community Schools

Statement of Net Position

June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 1,532,859
Taxes receivable	1,746
Accounts receivable	1,750
Intergovernmental receivable	570,615
Inventories	7,365
Prepaid expenses	19,697
Capital assets less accumulated depreciation of \$2,872,697	6,983,957
Total assets	9,117,989
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	1,018,349
LIABILITIES	
Accounts payable	29,055
Accrued payroll and other liabilities	707,867
Accrued interest	5,754
Unearned revenue	1,210
Long-term liabilities:	
Due within one year	540,665
Due in more than one year	1,878,320
Net pension liability	8,972,025
Compensated absences payable	270,893
Early retirement incentive	47,040
Total liabilities	12,452,829
DEFERRED INFLOWS OF RESOURCES	
Pension related	536,815
NET POSITION	
Net investment in capital assets	4,564,972
Restricted:	
Food service	90,265
Debt service	103,914
Capital outlay	421,227
Unrestricted	(8,033,684)
Total net position	\$ (2,853,306)

The Notes to Financial Statements are an integral part of this statement.

Onaway Area Community Schools

Statement of Activities

For the year ended June 30, 2017

	Expenses	Program Revenues		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Position
				Governmental activities
Functions/Programs:				
Governmental activities:				
Instruction	\$ 3,823,121	\$ -	\$ 897,273	\$ (2,925,848)
Support services	1,863,716	29,472	-	(1,834,244)
Food service	298,704	62,921	229,981	(5,802)
Athletics	112,064	19,572	17,602	(74,890)
Interest	49,745	-	-	(49,745)
Depreciation (unallocated)	223,657	-	-	(223,657)
Total governmental activities	\$ 6,371,007	\$ 111,965	\$ 1,144,856	(5,114,186)

General revenues

Taxes:

Property taxes, levied for general operations	2,512,399
Property taxes, levied for debt service	539,538
State of Michigan aid, unrestricted	2,183,954
Interest and investment earnings	11,548
Other	111,889
Gain (loss) on sale of capital assets	3,482
Total general revenues	5,362,810

Change in net position	248,624
Net position-beginning	(3,101,930)
Net position-ending	\$ (2,853,306)

The Notes to Financial Statements are an integral part of this statement.

Onaway Area Community Schools

Governmental Funds

Balance Sheet

June 30, 2017

	General Fund	2016 Construction Fund	Total Nonmajor Funds	Total
ASSETS				
Cash and investments	\$ 918,463	\$ 421,227	\$ 193,169	\$ 1,532,859
Taxes receivable	1,661	-	85	1,746
Accounts receivable	1,750	-	-	1,750
Intergovernmental receivables	559,483	-	11,132	570,615
Inventories	-	-	7,365	7,365
Prepaid items	19,697	-	-	19,697
Total assets	\$ 1,501,054	\$ 421,227	\$ 211,751	\$ 2,134,032
LIABILITIES				
Accounts payable	\$ 29,055	\$ -	\$ -	\$ 29,055
Salaries and related payable	698,870	-	8,997	707,867
Unearned revenue	-	-	1,210	1,210
Total liabilities	727,925	-	10,207	738,132
FUND BALANCES				
Nonspendable:				
Inventories	-	-	7,365	7,365
Prepaid items	19,697	-	-	19,697
Restricted:				
Food service	-	-	90,265	90,265
Debt service	-	-	103,914	103,914
Capital outlay	-	421,227	-	421,227
Unassigned	753,432	-	-	753,432
Total fund balances	773,129	421,227	201,544	1,395,900
Total liabilities and fund balances	\$ 1,501,054	\$ 421,227	\$ 211,751	\$ 2,134,032

The Notes to Financial Statements are an integral part of this statement.

Onaway Area Community Schools

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2017

Total fund balances - total governmental funds	\$ 1,395,900
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,983,957
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2017 were:

Installment purchase contract	(88,985)
Bonds payable	(2,330,000)
Early retirement incentive	(47,040)
Deferred compensated absences	(270,893)
Net pension liability	(8,972,025)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred Outflows of Resources:

District pension contributions subsequent to the measurement date	532,457
Changes in pension assumptions	140,271
Net difference between projected and actual earnings on pension plan investments	149,115
Changes in proportion and differences between employer contributions and proportionate share of contributions	84,691
Differences between expected and actual experience	111,815

Deferred Inflows of Resources:

Net difference between projected and actual earnings on pension plan investments	(21,264)
Changes in proportion and differences between employer contributions and proportionate share of contributions	(138,999)
Pension contributions after the plan date	(376,552)

Interest on long-term debt is accrued as a liability in the district-wide statements, but is not recognized in the governmental funds until due.	(5,754)
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Total net position - governmental activities	\$ (2,853,306)
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The Notes to Financial Statements are an integral part of this statement.

Onaway Area Community Schools

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2017

	General Fund	2016 Construction Fund	Total Nonmajor Funds	Total
REVENUES				
Local sources	\$ 2,661,598	\$ 4,867	\$ 603,324	\$ 3,269,789
State sources	2,966,153	-	7,622	2,973,775
Federal sources	229,125	-	222,359	451,484
Incoming transfers and other transactions	265,133	-	-	265,133
Total revenues	6,122,009	4,867	833,305	6,960,181
EXPENDITURES				
Current:				
Instruction	4,051,472	-	-	4,051,472
Support services	1,805,935	-	-	1,805,935
Food service	-	-	298,704	298,704
Athletics	112,064	-	-	112,064
Community services	507	-	-	507
Debt service	13,693	-	565,997	579,690
Capital outlay	-	1,470,640	-	1,470,640
Total expenditures	5,983,671	1,470,640	864,701	8,319,012
OTHER FINANCING SOURCES (USES)				
Proceeds for debt issuance	-	1,887,000	-	1,887,000
Net change in fund balances	138,338	421,227	(31,396)	528,169
Fund balances-beginning	634,791	-	232,940	867,731
Fund balances-ending	\$ 773,129	\$ 421,227	\$ 201,544	\$ 1,395,900

The Notes to Financial Statements are an integral part of this statement.

Onaway Area Community Schools

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2017

Net change in fund balances - total governmental funds	\$ 528,169
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(223,657)
Capital outlay	1,415,263
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.	(1,000)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	(2,615)
The issuance of long-term debt provides current financial resources to governmental funds, but not in the statement of activities, where it increases long-term debt.	(1,850,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	520,000
Repayment of installment purchase agreements is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	10,665
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6.	(20,735)
Reductions of early retirement incentive is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	64,759
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.	(192,225)
Change in net position of governmental activities	\$ 248,624

The Notes to Financial Statements are an integral part of this statement.

Onaway Area Community Schools

Fiduciary Fund

Statement of Assets and Liabilities

June 30, 2017

ASSETS

Cash and investments	\$ 185,616
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LIABILITIES

Due to student groups	\$ 185,616
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The Notes to Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Onaway Area Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

A. Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity and which organizations are legally separate component units of the School District. The School District has no component units.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

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. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

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

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

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

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the district-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and unrestricted State aid.

Fund Financial Statements - 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 if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School 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, unrestricted State aid, intergovernmental grants, 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 available only when cash is received by the School District.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

The School District reports the following major governmental fund:

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

Additionally, the School District reports the following fund types:

Food Service Fund - This Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for the specified purposes of food service activity for the School District.

Debt Service Fund - The Debt Service Fund accounts for property taxes and other revenues used to pay principal, interest, and fees related to long-term debt.

Fiduciary Fund - The Agency Fund is used to account for assets held by the School District in a trustee capacity for individuals or school-related organizations. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

D. Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on December 1. Taxes are considered to be delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory until used. When payments to vendors reflect costs applicable to future fiscal years they are recorded as prepaid items in both district-wide and fund financial statements.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years
Computer software	3-5 years

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

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 no items that qualify for reporting in this category.

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. The liability has been calculated using the vesting method, in which leave amounts 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 are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

Net Position and Fund Equity - The difference between fund assets and liabilities is "Net Position" on the government-wide and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- Nonspendable--Amounts that cannot be spent either because they are a) not in spendable form or; b) legally or contractually required to be maintained intact.
- Restricted--Amounts with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed--Amounts that can be used only for specific purposes determined by a formal action by Board of Education resolution, and that remain binding unless removed in the same manner.
- Assigned--Amounts neither restricted nor committed for which a School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- Unassigned--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the School District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pension

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) 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.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budgets were amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have expenditure budget variances.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

Deposits are carried at cost. The District has designated three banks for deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The School District's deposits and investment policy are in accordance with statutory authority.

As of June 30, 2017, the district had the following deposits.

Michigan Liquid Asset Fund	\$	950,989
Citizens Bank		597,055
Huron National Bank		1,181
Petty cash		100
Total	\$	1,549,325

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 1,532,859	\$ 185,616	\$ 1,718,475

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Deposits - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the School District's deposits may not be recovered. At year end, the bank balance of the School District's deposits is \$1,549,324, of which \$355,010 is covered by federal depository insurance. The remaining \$1,194,314 is uninsured and uncollateralized.

Interest Rate Risk - The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The district places no limit on the amount the district may invest in any one issuer. More than five percent of the district's deposits are in Michigan Liquid Asset Fund, Citizens Bank and Huron National Bank. These investments are 61.4%, 38.5%, and 0.1% respectively, of the district's total deposits.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

Fair Value Hierarchy - The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the district as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Michigan Liquid Asset Fund Plus	\$ 950,989	\$ -	\$ -	\$ 950,989

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities, for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 20,800	\$ -	\$ -	\$ 20,800
Capital assets being depreciated:				
Buildings and additions	7,416,583	950,446	-	8,367,029
Equipment and furnishings	520,475	139,217	10,204	649,488
Computer software	7,412	-	-	7,412
Vehicles - other than buses	150,954	-	-	150,954
School buses	416,676	325,600	81,305	660,971
Total capital assets being depreciated	8,512,100	1,415,263	91,509	9,835,854
Less accumulated depreciation for:				
Buildings and additions	1,881,301	108,117	-	1,989,418
Equipment and furnishings	438,739	41,083	10,004	469,818
Computer software	7,412	-	-	7,412
Vehicles - other than buses	90,226	5,061	-	95,287
School buses	321,871	69,396	80,505	310,762
Total accumulated depreciation	2,739,549	223,657	90,509	2,872,697
Net capital assets being depreciated	5,772,551	1,191,606	1,000	6,963,157
Net capital assets	\$ 5,793,351	\$ 1,191,606	\$ 1,000	\$ 6,983,957

Depreciation expense was not charged to specific activities as the district considers its assets to impact multiple activities and allocation is not practicable.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following balances at June 30, 2017, represent individual fund interfund receivables and payables:

	<u>Due to:</u>
	<u>Food Service</u>
Due from:	
General Fund	\$ 16,361

The District reports interfund balances between certain funds. The sum of all balances presented in the table above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 6 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and purchase contracts.

The following is a summary of long-term debt transactions for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount due within one year
Notes and Bonds Payable:					
Installment Purchase Contracts	\$ 99,650	\$ -	\$ 10,665	\$ 88,985	\$ 10,665
Bonds	1,000,000	1,850,000	520,000	2,330,000	530,000
Total Notes and Bonds Payable	1,099,650	1,850,000	530,665	2,418,985	540,665
Early Retirement Incentive	111,799	1,067	65,826	47,040	-
Compensated Absences	250,158	21,310	575	270,893	-
Total Long-Term Debt	\$ 1,461,607	\$ 1,872,377	\$ 597,066	\$ 2,736,918	\$ 540,665

The annual requirement to amortize long-term debt outstanding as of June 30, 2017 follows:

Year ended June 30,	Notes and Bonds Payable		Total
	Principal	Interest	
2018	\$ 540,665	\$ 47,554	\$ 588,219
2019	310,665	38,359	349,024
2020	310,665	32,025	342,690
2021	310,665	25,691	336,356
2022	311,665	19,356	331,021
2023	311,665	12,977	324,642
2024	307,665	6,598	314,263
2025	7,665	399	8,064
2026	7,665	199	7,864
Totals	\$ 2,418,985	\$ 183,158	\$ 2,602,143

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

Notes and Bonds payable at June 30, 2017 were comprised of the following:

\$1,850,000 2016 Building and Site General Obligation Unlimited Tax Bonds due in annual installments of \$25,000 to \$300,000; interest due in bi-annual payments, rate of 1.20% to 2.00%	\$ 1,825,000
\$114,976 installment purchase agreement due in annual installments of \$7,665 through May 23, 2026; interest at 2.60%	68,985
\$42,000 installment purchase agreement due in bi-annual installments of \$3,495 to \$4,440 including interest at 4.50%	20,000
\$2,905,000 2012 Refunding General Obligation Unlimited Tax Bonds due in annual installments of \$465,000 to \$505,000; interest due in bi-annual payments, with a rate of 1.68%	505,000
Total Notes and Bonds Payable	\$ 2,418,985

NOTE 7 - SHORT-TERM DEBT

The School District borrows funds to provide short-term financing for governmental activities. The School District borrowed and repaid with interest, by May 23, 2017, \$1,200,000 in State Aid Notes. The interest rate was 2.00%. There are no short-term loans outstanding at year end.

Short-term debt activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
State Aid Note	\$ -	\$ 1,200,000	\$ 1,200,000	\$ -

NOTE 8 - RETIREMENT INCENTIVES

In past years, the School District offered an early retirement incentive to certified employees. The remaining amount owed by the School District is \$47,040 which will be paid to eight employees over the next three years.

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 10 - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPERS) PENSION 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 is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/mpers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, 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.

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.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Benefit Structure	Pension Contribution Rates		
	Member	Employer	
		Universities	Non-Universities
Basic	0.0 - 4.0 %	22.60 %	18.95 %
Member Investment Plan	3.0 - 7.0 %	22.60 %	18.95 %
Pension Plus	3.0 - 6.4 %	N/A	17.73 %
Defined Contribution	0.0 %	17.73 %	14.56 %

Required contributions to the pension plan from the district were \$2,293,541 for the year ended September 30, 2016

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

At June 30, 2017, the district reported a liability of \$8,972,025 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. 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, 2016, the district's proportion was 0.03596120 percent, which was a decrease of 2.01 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the district recognized pension expense of \$2,069,207. At June 30, 2017, 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	\$ 111,815	\$ 21,264
Changes of assumptions	140,271	-
Net difference between projected and actual earnings on pension plan investments	149,115	-
Changes in proportion and differences between district contributions and proportionate share of contributions	84,691	138,999
District contributions subsequent to the measurement date	532,457	376,552
Total	\$ 1,018,349	\$ 536,815

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

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, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year Ending September 30	Amount
2017	\$ 63,466
2018	51,729
2019	199,795
2020	10,639

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 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%
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.

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 pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers 1.2456 for university employers.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

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, 2016, are summarized in the following table:

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

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

Discount Rate

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 11,553,710	\$ 8,972,025	\$ 6,795,417

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 at www.michigan.gov/mpers-cafr.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Postemployment Benefits

Under the MPSERS' Act, all retirees participating in the MPSERS' pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. The MPSERS board of trustees annually sets the employer contribution rate to fund these benefits on a pay-as-you-go basis. Employer contributions ranged from 8.18 percent to 9.11 percent of covered compensation for the year ended June 30, 2016.

Defined Contribution Plan

The defined contribution plan has an employer match of 50% of the Employee contribution from 0% to 4% depending on the employee plan & choice and employer paid 2% on the employee's health care fund.

NOTE 12 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	Unavailable	Unearned
Food Service Fund	\$ -	\$ 1,210

NOTE 13 - PROPERTY TAX ABATEMENTS

Act 198, the Plant Rehabilitation and Industrial Development Districts Act, was adopted in the State of Michigan as a means of providing a stimulus in the form of significant tax incentives to industry for the purpose of creating new jobs and maintaining existing jobs. It allows an obsolete property, when replaced or restored, to have its assessed value frozen at the level prior to the improvement for a maximum of twelve years; and new plants to receive a fifty percent exemption from property tax on the taxable value of new real and personal properties, also for a maximum period of twelve years.

Public Act 381 of 1996, the Brownfield Redevelopment Financing Act, was adopted in the State of Michigan as a means to authorize municipalities to create a brownfield redevelopment authority to facilitate the implementation of brownfield plans; to create brownfield redevelopment zones; to promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax reverted, blighted, or functionally obsolete property; to prescribe the powers and duties of brownfield redevelopment authorities; to permit the issuance of bonds and other evidences of indebtedness by an authority; to authorize the acquisition and disposal of certain property; to authorize certain funds; to prescribe certain powers and duties of certain state officers and agencies; and to authorize and permit the use of certain tax increment financing.

No significant abatements have been made that would affect the District.

NOTE 14 - SUBSEQUENT EVENTS

Management evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation was performed through October 20, 2017, the date the financial statements were approved for issuance. There were subsequent events that should be accounted for or require disclosure in the accompanying financial statements.

Subsequent to year end, the District borrowed \$1,100,000 at approximately 1.64 percent annual interest on a state aid note. One principal and interest payment is due on April 24, 2018.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

NOTE 15- RECENTLY ISSUED ACCOUNTING PRINCIPLES

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

In March 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

In January 2017, GASB issued Statement 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Onaway Area Community Schools

Notes to the Financial Statements

June 30, 2017

In March 2017, GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

In June, 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

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REQUIRED SUPPLEMENTAL INFORMATION

Onaway Area Community Schools

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2017

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,634,763	\$ 2,647,261	\$ 2,661,598	\$ 14,337
State sources	2,930,141	2,961,453	2,966,153	4,700
Federal sources	246,685	227,989	229,125	1,136
Incoming transfers and other transactions	216,000	263,541	265,133	1,592
Total revenues	6,027,589	6,100,244	6,122,009	21,765
EXPENDITURES				
Current:				
Instruction:				
Basic programs	3,312,813	3,474,452	3,438,057	36,395
Added needs	712,143	624,351	613,415	10,936
Support services:				
Pupil services	52,304	47,007	47,006	1
Instructional staff services	75,588	68,626	67,475	1,151
General administration	311,642	301,834	293,171	8,663
School administration	336,969	341,211	338,434	2,777
Business services	94,191	99,019	99,001	18
Operations and maintenance	610,371	598,122	574,426	23,696
Pupil transportation	313,057	242,679	233,196	9,483
Central support services	140,841	164,633	153,226	11,407
Athletics	89,597	115,521	112,064	3,457
Community activities	500	507	507	-
Facilities acquisition, construction and improvements	2,000	-	-	-
Debt service	16,900	13,693	13,693	-
Total expenditures	6,068,916	6,091,655	5,983,671	107,984
Net change in fund balances	(41,327)	8,589	138,338	129,749
Fund balances-beginning	634,791	634,791	634,791	-
Fund balances-ending	\$ 593,464	\$ 643,380	\$ 773,129	\$ 129,749

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Required Supplemental Information

June 30, 2017

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.03596120 %	0.03668000 %	0.03606165 %
Reporting unit's proportionate share of net pension liability	\$ 8,972,025	\$ 8,959,764	\$ 7,943,114
Reporting unit's covered employee payroll	\$ 3,009,785	\$ 3,126,371	\$ 3,065,070
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	298.10 %	286.59 %	259.15 %
Plan fiduciary net position as a percentage of total pension liability	63.27 %	66.15 %	66.20 %

Schedule of the Reporting Unit's Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 724,317	\$ 707,657	\$ 778,664
Contributions in relation to statutorily required contributions	724,317	707,657	778,664
Contribution deficiency (excess)	-	-	-
Reporting units covered-employee payroll	\$ 2,908,368	\$ 3,126,371	\$ 3,065,070
Contributions as a percentage of covered-employee payroll	24.90 %	22.64 %	25.40 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2016.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending 2016.

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OTHER SUPPLEMENTAL INFORMATION

Onaway Area Community Schools

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2017

	Food Service Fund	Debt Service Fund	Total
ASSETS			
Cash and investments	\$ 89,340	\$ 103,829	\$ 193,169
Taxes receivables	-	85	85
Intergovernmental receivable	11,132	-	11,132
Inventories	7,365	-	7,365
Total assets	\$ 107,837	103,914	\$ 211,751
LIABILITIES			
Salaries and related payables	\$ 8,997	\$ -	\$ 8,997
Unearned revenue	1,210	-	1,210
Total liabilities	10,207	-	10,207
FUND BALANCES			
Nonspendable - inventory	7,365	-	7,365
Restricted for:			
Food service	90,265	-	90,265
Debt service	-	103,914	103,914
Total fund balances	97,630	103,914	201,544
Total liabilities and fund balances	\$ 107,837	103,914	\$ 211,751

Onaway Area Community Schools

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the year ended June 30, 2017

	Food Service Fund	Debt Service Fund	Total
REVENUES			
Local sources	\$ 63,559	\$ 539,765	\$ 603,324
State sources	7,622	-	7,622
Federal sources	222,359	-	222,359
Total revenues	293,540	539,765	833,305
EXPENDITURES			
Current:			
Food service	298,704	-	298,704
Debt service			
Principal	-	520,000	520,000
Interest	-	45,997	45,997
Total expenditures	298,704	565,997	864,701
Net change in fund balances	(5,164)	(26,232)	(31,396)
Fund balances-beginning	102,794	130,146	232,940
Fund balances-ending	\$ 97,630	\$ 103,914	\$ 201,544

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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
Onaway Area Community Schools

We have audited, in accordance with the 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 Onaway Area Community Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Onaway Area Community Schools' basic financial statements, and have issued our report thereon dated October 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Onaway Area 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 Onaway Area Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Onaway Area 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 the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Onaway Area Community Schools' financial statements are free from 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*.

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 (Continued)

To the Board of Education
Onaway Area Community Schools

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.

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Douglas Wohlberg, CPA
Byron Center, Michigan
October 20, 2017

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Management Comments Letter

To the Board of Education
Onaway Area Community Schools
Cheboygan and Presque Isle Counties, Michigan

We have recently completed the audit of the financial statements of Onaway Area Community Schools for the year ended June 30, 2017 and issued our report dated October 20, 2017. As a result of our audit, we offer the following observations and comments for your consideration:

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is allowed to handle all phases of a transaction.

We noted the Business Office of the School District had a lack of segregation of duties, as one person was allowed to handle all aspects of processing transactions. A lack of segregation of duties increases the risk of possible errors or irregularities; however due to a limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

We appreciate the help of the District's personnel during the course of our audit. We would be happy to answer any questions or concerns you may have regarding the audit report or our comments.

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive style with a large, looping flourish at the end.

Douglas Wohlberg, CPA
Byron Center, Michigan
October 20, 2017

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**AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH
THOSE CHARGED WITH GOVERNANCE**

October 20, 2017

To the Board of Education
Onaway Area Community Schools

We have audited the financial statements of the governmental activities and the major fund information of Onaway Area Community Schools for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Onaway Area Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the district's financial statements was:

Management's estimates of the useful lives of capital assets which is based on previous history, management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits, and the net pension liability which is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE (continued)

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedule, Schedule of the Reporting Unit's Proportionate share of the Net Pension Liability, Schedule of the Reporting Unit's Contributions, and the Notes to Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Onaway Area Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Douglas Wohlberg, CPA
Byron Center, Michigan