

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S
REPORT**

Year Ended June 30, 2015

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Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

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June 30, 2015

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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, 2015, 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.

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, 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 28, 2015, 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 28, 2015

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

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, 2015.

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, 2015

Summary of Net Position:

The following summarizes the net position at fiscal year ended June 30, 2015:

	2015	2014 Restated
Assets		
Current assets	\$ 1,490,614	\$ 1,491,007
Capital assets	5,867,081	5,919,411
Total assets	7,357,695	7,410,418
Deferred outflows of resources	899,694	899,694
Liabilities		
Current liabilities	824,865	756,668
Long-term liabilities	9,792,416	10,851,559
Total liabilities	10,617,281	11,608,227
Deferred inflows of resources	878,114	878,114
Net Position		
Invested in capital assets, net of related debt	378,946	3,828,431
Restricted:		
Food service	85,652	73,431
Debt service	106,395	96,394
Unrestricted	(3,808,999)	(8,174,485)
Total net position	\$ (3,238,006)	\$ (4,176,229)

Analysis of Financial Position:

During fiscal year, the District's total net position increased by \$938,223. 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 \$53,852.

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 \$53,852 in assets during the year.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

2. Capital Outlay Acquisitions

Actual capital outlay acquisitions for the fiscal year were \$55,625. This is the purchase of a bus that was sold.

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 sold a bus with a book value of \$400. Many of the buses currently in use have a very small book value.

4. Long Term Debt Reduction

The District is currently not completing any significant capital projects. The long-term liabilities for the District were reduced by \$552,365. When liabilities are decreased faster than capital assets depreciate, the result is an increase to net position.

Change of Significant Accounting Policy

Effective for the year ending June 30, 2015 the district implemented Governmental Accounting Standards Board (GASB) Statements Number 68, Accounting and Financial Reporting for Pensions, and Statement Number 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Implementation of these new accounting standards required a restatement of beginning net position for the net pension liability related to the defined benefit retirement plan. The plan is the Michigan Public School Employees' Retirement System (MPERS). This plan 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.

Previously GASB Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, excluded this net pension liability from the entity-wide financial statements of the district. The above restatements had the following impact on previously reported balances.

Net position (deficit) as previously reported	\$	4,252,083
The effect of the addition of the net pension liability		<u>(8,428,312)</u>
Net pension (deficit) restated	\$	<u>(4,176,229)</u>

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

Results of Operations:

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

	2015	% of Total	2014 Restated	% of Total
General Revenues				
Michigan's Foundation Grant Allowance:				
Property taxes levied for general operations	\$ 2,570,523	37.2 %	\$ 2,535,875	37.2 %
State of Michigan Aid, unrestricted	2,154,498	31.2 %	2,162,176	31.8 %
Michigan's Foundation Grant Allowance	4,725,021	68.4 %	4,698,051	69.0 %
Property taxes levied for debt service	522,920	7.6 %	551,126	8.1 %
Other	44,498	0.6 %	58,547	0.9 %
Total General Revenues	5,292,439	76.6 %	5,307,724	78.0 %
Program Revenues				
Charges for services	97,170	1.4 %	90,312	1.3 %
Operating grants - Federal and State	1,513,144	21.9 %	1,411,525	20.7 %
Total Revenues	6,902,753	99.9 %	6,809,561	100.0 %
Expenses				
Instructional and instructional support	3,659,555	61.4 %	3,842,093	61.7 %
Support services	1,823,197	30.6 %	1,858,235	29.8 %
Food services	284,509	4.8 %	298,269	4.8 %
Athletics	100,746	1.7 %	97,523	1.6 %
Interest on long-term debt	35,409	0.6 %	43,668	0.7 %
Depreciation (unallocated)	61,114	1.0 %	89,644	1.4 %
Total Expenses	5,964,530	100.1 %	6,229,432	100.0 %
Increase (Decrease) in Net Position	\$ 938,223		\$ 580,129	

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

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 \$2,551,911. The non-homestead tax levy decreased by 0.15% over the prior year.

<u>Fiscal Year</u>	<u>Non Homestead</u>		<u>Percent change</u>
	<u>Tax Levy</u>		
2014-2015	\$ 2,551,911		0.15 %
2013-2014	2,547,994		0.09 %
2012-2013	2,545,810		(0.29)%
2011-2012	2,553,268		(2.17)%
2010-2011	2,609,888		(4.31)%

The average decrease over the last 5 years was 1.31%.

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 \$7,126 per student for the school year. This was an increase of \$100 over the District's previous year foundation allowance.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

Student Enrollment:

The District's student blended enrollment for the year was 662 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>
2014-2015	662	(6)
2013-2014	668	(5)
2012-2013	673	(9)
2011-2012	682	9
2010-2011	673	(21)

Preliminary student enrollments for 2015-2016 indicate that enrollments will decrease slightly from 2014-2015.

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 2014-2015, the District's debt millage levy was 2.10 mills, which generated revenue of \$522,920.

4. Food Service Sales to Students & Adults:

The District's Food Service revenues decreased from the previous year by approximately \$2,741 to \$295,042. School lunch and milk prices were raised from the previous year.

The total revenues from Food Service operations were greater than total expenditures for the year by \$10,533. The food service fund spent \$1,828 on capital outlays during the year.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

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
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 %
2011-2012	5,778,242	5,720,725	5,746,644	(0.55)%	0.45 %
2010-2011	5,837,260	5,966,542	6,083,365	4.22 %	1.96 %

General Fund Expenditures Budget vs. Actual 5-Year History

Fiscal Year	Original Budget	Final Budget	Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
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 %
2011-2012	6,164,510	6,389,685	6,243,586	(1.28)%	2.29 %
2010-2011	6,116,051	6,177,323	6,125,818	(0.16)%	0.83 %

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 2015-2016, the budget was amended in February and final budget amendments were made in June.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

Change from Original to Final Budget

General Fund Revenues:

Total Revenues Original Budget	\$ 5,801,396
Total Revenues Final Budget	6,033,388
<u>Increase (Decrease) in Budgeted Revenues</u>	<u>\$ 231,992</u>

The District's actual general fund revenues were greater than the final budget by \$51,626, a variance of 0.86%. The final revenue budget reflects the following changes from the original budget:

- Final budgeted local revenues were decreased by \$9,133 from the original budget.
- Final budgeted state revenues were increased by \$325,328 from the original. The majority of this increase was due to adjusting for categorical revenues such as Best Practice Incentives and the MPSERS UAAL Rate Stabilization.
- Final budgeted federal revenues were decreased by \$49,532. This resulted from the finalization of federal grants.
- Intermediate revenues were decreased by \$52,001. 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	\$ 5,997,393
Total Expenditures Final Budget	6,208,429
<u>Increase (Decrease) in Budgeted Expenditures</u>	<u>\$ 211,036</u>

The District's actual expenditures differed from the final budget by \$32,909 or 0.53%. 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 2014-2015, the budget was amended in October of 2014 and final budget amendments were made in June of 2015.
- The administration made adjustments in October to reflect an increase to summer school spending. Additional salary, benefits, and supplies were needed for the summer school program that were not originally budgeted for at the beginning of the school year. The majority of this had to do with additional students being placed in the program.
- Local property tax revenues were increased by \$22,534 and state revenues were increased by \$300,190. While the state increases seem excessive, they comprised of \$260,871 increase for a MPSERS UAAL increase that was expensed and paid out directly to ORS and also a \$33,082 increase in a Best Practices allocation that was not budgeted for at the beginning of the year.

Onaway Area Community Schools

Administration's Discussion and Analysis

Year Ended June 30, 2015

- Benefits costs were increased by \$260,871 in order to the expense the MPSERS UAAL payments that were received. Operations and Maintenance costs were reduced by \$120,670. Within this amount, workers compensation costs were reduced by \$25,088, building insurance was reduced by \$16,538, and natural gas costs were reduced by \$24,451. In addition, other operations and maintenance supplies and equipment costs were reduced by nearly \$20,000.
- Transportation costs were reduced by \$104,369. In this amount \$17,017 were salary decreases as a result of two bus drivers leaving during the school year and were replaced with existing staff. A savings of \$41,907 was generated in benefit savings as a result of bus drivers retiring that were formerly receiving health insurance benefits under a grandfather clause in the support staff contract. Fuel costs were nearly \$40,000 less than what was anticipated at the beginning of the year. Repair costs actually increased by nearly \$10,000. This is due to an aging bus fleet that needed many unplanned repairs during the school year.
- In anticipation of future reductions to revenues, many supply and equipment purchases that were anticipated at the start of the school year were eliminated. As an example, supply line items were reduced by \$23,291

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

Cheboygan and Presque Isle Counties, Michigan

Statement of Net Position

June 30, 2015

	Governmental Activities
ASSETS	
Cash and investments	\$ 844,089
Receivables:	
Taxes	6,057
Accounts	22,073
Intergovernmental	591,407
Inventories	5,091
Prepaid expenses	21,897
Capital assets less accumulated depreciation of \$2,629,104	5,867,081
Total assets	7,357,695
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension contributions	606,610
Pension plan change in assumptions	293,084
Total deferred outflows of resources	899,694
LIABILITIES	
Accounts payable	147,283
Accrued payroll and other liabilities	672,627
Accrued interest	4,552
Unearned revenue	403
Long-term liabilities:	
Due within one year	511,372
Due in more than one year	1,337,930
Net pension liability	7,943,114
Total liabilities	10,617,281
DEFERRED INFLOWS OF RESOURCES	
Pension plan earnings differences	878,114
NET POSITION	
Net investment in capital assets	378,946
Restricted:	
Food service	85,652
Debt service	106,395
Unrestricted	(3,808,999)
Total net position	\$ (3,238,006)

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Statement of Activities

For the year ended June 30, 2015

	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	\$ 3,659,555	\$ 2,975	\$ 1,239,821	\$ (2,416,759)
Support services	1,823,197	11,853	34,193	(1,777,151)
Food service	284,509	56,738	238,241	10,470
Athletics	100,746	25,604	889	(74,253)
Interest	35,409	-	-	(35,409)
Depreciation (unallocated)	61,114	-	-	(61,114)
Total governmental activities	\$ 5,964,530	\$ 97,170	\$ 1,513,144	(4,354,216)

General revenues

Taxes:

Property taxes, levied for general operations	2,570,523
Property taxes, levied for debt service	522,920
State of Michigan aid, unrestricted	2,154,498
Interest and investment earnings	766
Other	42,132
Gain (loss) on sale of capital assets	1,600
Total general revenues	5,292,439

Change in net position	938,223
Net position-beginning	(4,176,229)
Net position-ending	\$ (3,238,006)

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Governmental Funds

Balance Sheet

June 30, 2015

	General Fund	Total Nonmajor Funds	Total
ASSETS			
Cash and investments	\$ 663,197	\$ 180,892	\$ 844,089
Receivables:			
Taxes	6,057	-	6,057
Accounts	22,073	-	22,073
Due from other funds	-	16,361	16,361
Intergovernmental	589,692	1,715	591,407
Inventories	-	5,091	5,091
Prepaid items	21,897	-	21,897
Total assets	\$ 1,302,916	\$ 204,059	\$ 1,506,975
LIABILITIES			
Accounts payable	\$ 146,336	\$ 947	\$ 147,283
Salaries payable	667,055	4,264	671,319
Due to other funds	16,361	-	16,361
Unearned revenue	-	403	403
Intergovernmental payable	-	1,307	1,307
Total liabilities	829,752	6,921	836,673
FUND BALANCES			
Nonspendable:			
Inventories	-	5,091	5,091
Prepaid items	21,897	-	21,897
Restricted:			
Food service	-	85,652	85,652
Debt service	-	106,395	106,395
Assigned:			
Encumbrances	129,338	-	129,338
Bus purchases	190,000	-	190,000
Unassigned	131,929	-	131,929
Total fund balances	473,164	197,138	670,302
Total liabilities and fund balances	\$ 1,302,916	\$ 204,059	\$ 1,506,975

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

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

June 30, 2015

Total fund balances - total governmental funds	\$ 670,302
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.	5,867,081
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, 2015 were:	
Installment purchase contracts	(110,315)
Bonds payable	(1,490,000)
Termination pay	(16,479)
Compensated absences	(232,508)
Net pension liability	(7,943,114)
The pension expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	899,694
The net difference between the projected and actual pension plan investment earnings is recorded as deferred inflows of resources on the statement of net position, but not on the balance sheet of the funds.	(878,114)
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.	(4,553)
Total net position - governmental activities	\$ (3,238,006)

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2015

	General Fund	Total Nonmajor Funds	Total
REVENUES			
Local sources	\$ 2,668,714	\$ 579,899	\$ 3,248,613
State sources	2,911,926	9,425	2,921,351
Federal sources	271,109	228,815	499,924
Intermediate sources	233,265	-	233,265
Total revenues	6,085,014	818,139	6,903,153
EXPENDITURES			
Current:			
Instruction	4,222,782	-	4,222,782
Support services	1,835,361	-	1,835,361
Food service	-	284,509	284,509
Athletics	100,746	-	100,746
Debt service	14,631	513,096	527,727
Capital outlay	2,000	-	2,000
Total expenditures	6,175,520	797,605	6,973,125
Net change in fund balances	(90,506)	20,534	(69,972)
Fund balances-beginning	563,670	176,604	740,274
Fund balances-ending	\$ 473,164	\$ 197,138	\$ 670,302

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

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, 2015

Net change in fund balances - total governmental funds	\$ (69,972)
--	-------------

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	(107,555)
Capital outlay	55,625

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.	(400)
--	-------

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	1,382
---	-------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	480,000
---	---------

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
--	--------

Reductions of compensated absences is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	48,260
---	--------

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.	13,440
--	--------

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.	506,778
--	---------

Change in net position of governmental activities	\$ 938,223
---	------------

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Fiduciary Fund

Statement of Assets and Liabilities

June 30, 2015

ASSETS

Cash and investments	\$ 191,259
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LIABILITIES

Due to student groups	\$ 191,259
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The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

The School District reports the following major governmental funds:

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.

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.

Additionally, the School District reports the following fund type:

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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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.

E. Change in Accounting Principle

Effective for the year ending June 30, 2015 the district implemented Governmental Accounting Standards Board (GASB) Statements Number 68 and 71. Implementation of these new accounting standards required a restatement of beginning net position for the net pension liability related to the defined benefit retirement plan. The plan is the Michigan Public School Employees' Retirement System (MPERS). This plan 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.

Previously GASB Statement Number 27 excluded this net pension liability from the financial statements of the district. The above restatements had the following impact on previously reported balances.

Net position as previously reported	\$	4,252,083
Net pension liability		(8,428,312)
<u>Net pension restated</u>	<u>\$</u>	<u>(4,176,229)</u>

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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, 2015, the district had the following deposits.

Michigan Liquid Asset Fund	\$	463,959
Citizens Bank		576,278
Huron National Bank		1,075
Petty cash		100
Total	\$	1,041,412

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	\$ 844,089	\$ 191,259	\$ 1,035,348

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 \$1,041,413, of which \$357,471 is covered by federal depository insurance. The remaining \$683,942 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 44.6%, 55.3%, and 0.1% respectively, of the district's total deposits.

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities, for the year ended June 30, 2015, 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	-	-	7,416,583
Equipment and furnishings	483,760	-	-	483,760
Computer software	7,412	-	-	7,412
Vehicles - other than buses	150,954	-	-	150,954
School buses	415,154	55,625	54,103	416,676
Total capital assets being depreciated	8,473,863	55,625	54,103	8,475,385
Less accumulated depreciation for:				
Buildings and additions	1,760,111	60,595	-	1,820,706
Equipment and furnishings	411,143	11,503	-	422,646
Computer software	7,411	1	-	7,412
Vehicles - other than buses	80,104	5,061	-	85,165
School buses	316,483	30,395	53,703	293,175
Total accumulated depreciation	2,575,252	107,555	53,703	2,629,104
Net capital assets being depreciated	5,898,611	(51,930)	400	5,846,281
Net capital assets	\$ 5,919,411	\$ (51,930)	\$ 400	\$ 5,867,081

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 3,949
Support services	42,492
Unallocated	61,114
Total depreciation expense - governmental activities	\$ 107,555

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following balances at June 30, 2015, 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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amount due within one year
Notes and Bonds Payable:					
Installment Purchase Contracts	\$ 120,980	\$ -	\$ 10,665	\$ 110,315	\$ 10,665
Bonds	1,970,000	-	480,000	1,490,000	490,000
Total Notes and Bonds Payable	2,090,980	-	490,665	1,600,315	500,665
Early Retirement Incentive	29,919	-	13,440	16,479	10,707
Compensated Absences	280,768	-	48,260	232,508	-
Total Long-Term Debt	\$ 2,401,667	\$ -	\$ 552,365	\$ 1,849,302	\$ 511,372

The annual requirement to amortize long-term debt outstanding as of June 30, 2015 follows:

Year ended June 30,	Notes and Bonds Payable		Total
	Principal	Interest	
2016	\$ 500,665	\$ 28,394	\$ 529,059
2017	505,665	19,828	525,493
2018	515,665	11,178	526,843
2019	10,665	2,359	13,024
2020	10,665	2,025	12,690
2021	10,665	1,691	12,356
2022	11,665	1,356	13,021
2023	11,665	977	12,642
2024	7,665	598	8,263
2025	7,665	399	8,064
2026	7,665	199	7,864
Totals	\$ 1,600,315	\$ 69,004	\$ 1,669,319

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Notes and Bonds payable at June 30, 2015 were comprised of the following:

\$114,976 installment purchase agreement due in annual installments of \$7,665 through May 23, 2026; interest at 2.60%	\$	84,315
\$42,000 installment purchase agreement due in bi-annual installments of \$3,495 to \$4,440 including interest at 4.50%		26,000
\$2,905,000 2012 Refunding General Obligation Unlimited Tax Bonds due in annual installments of \$465,000 to \$505,000; interest rate due in bi-annual payments of 1.68%		1,490,000
Total Notes and Bonds Payable	\$	1,600,315

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 April 29, 2013, \$1,200,000 in State Aid Notes. The interest rate was 1.20%. There are no short-term loans outstanding at year end.

Short-term debt activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
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 \$16,479 which will be paid to four employees over the next four 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

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

NOTE 10 - PENSION PLAN DESCRIPTION

The Michigan Public School Employees' Retirement System (MPSERS) 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 Governor appointed board members consist of:

- Two active classroom teachers or other certified school personnel.
- One active member or retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

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

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

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Membership

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

Inactive plan members or their beneficiaries currently receiving benefits:

Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512

Inactive plan members entitled to but not yet receiving benefits: 16,979

Active plan members:

Vested	108,934
Non-vested	101,843
Total	210,777

Total plan members 432,268

Benefits Provided

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

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

NOTE 11 - RETIREMENT PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

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

Reserves

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

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

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

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

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

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

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

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

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

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

Reporting Entity

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

Benefit Protection

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Fair Value of Investments

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

Investment Income

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

Costs of Administering the System

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

Property and Equipment

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

Related Party Transactions

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

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Note 12 - CONTRIBUTIONS AND FUNDING STATUS

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

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

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

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

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

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Note 13 - NET PENSION LIABILITY--NON-UNIVERSITY

Measurement of the MPSERS Net Pension Liability

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

MPSERS (Plan) Net Pension Liability—Non-University

As of September 30, 2014

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

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

MPSERS (Plan) Net Pension Liability—Non-University

As of October 1, 2013

Total Pension Liability		62,859,499,994
Plan Fiduciary Net Position		39,427,686,072
<u>Net Pension Liability</u>		<u>23,431,813,922</u>

Proportionate Share of Reporting Unit's Net Pension Liability

At September 30, 2014, the Reporting Unit reported a liability of \$7,943,114 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was 0.03606162 percent.

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8 %
% Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
Total	100.0	

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

Rate of Return

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

Discount Rate

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

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 10,472,304	\$ 7,943,114	\$ 5,812,234

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Timing of the Valuation

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

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

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

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

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

Note 14 - PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS - NON-UNIVERSITY

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$643,414. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	293,084	-
Net difference between projected and actual earnings on pension plan investments	-	878,114
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	-	-
Reporting Unit contributions subsequent to the measurement date	-	-
Total	\$ 293,084	\$ 878,114

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)		
2015	\$	143,318
2016		143,318
2017		143,318
2018		155,077

Note 15 - PAYABLES TO THE PENSION PLAN

The academy has no significant payables do to the pension plan.

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

NOTE 16 - 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, 2013.

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 17 - 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	\$ -	\$ 403

NOTE 18 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 28, 2015, the management representation letter date.

Subsequent to year end, the District borrowed \$1,400,000 at approximately 1.2 percent annual interest on a state aid note. One principal and interest payment is due on April 22, 2016.

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Notes to Financial Statements

June 30, 2015

NOTE 19-IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

In June 2015, GASB issued Statement 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*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

In June 2015, GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

In June 2015, GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

In June 2015, GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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REQUIRED SUPPLEMENTAL INFORMATION

Onaway Area Community Schools

Cheboygan And Presque Isle Counties, Michigan

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
REVENUES				
Local sources	\$ 2,649,711	\$ 2,658,844	\$ 2,668,714	\$ 9,870
State sources	2,585,258	2,910,586	2,911,926	1,340
Federal sources	324,927	274,459	271,109	(3,350)
Intermediate sources	241,500	189,499	233,265	43,766
Total revenues	5,801,396	6,033,388	6,085,014	51,626
EXPENDITURES				
Current:				
Instruction:				
Basic programs	3,141,774	3,562,555	3,559,500	3,055
Added needs	684,869	663,493	663,282	211
Support services:				
Pupil services	21,603	45,869	44,543	1,326
Instructional staff services	78,992	71,677	71,057	620
General administration	271,777	258,185	257,088	1,097
School administration	332,526	351,856	351,678	178
Business services	108,461	89,106	89,106	-
Operations and maintenance	690,926	570,257	563,549	6,708
Pupil transportation	425,020	320,650	317,896	2,754
Central support services	132,956	153,970	140,714	13,256
Athletics	91,489	102,257	100,746	1,511
Community activities	500	-	-	-
Facilities acquisition, construction and improvements	2,000	2,000	2,000	-
Debt service	14,500	16,554	14,361	2,193
Total expenditures	5,997,393	6,208,429	6,175,520	32,909
Net change in fund balances	(195,997)	(175,041)	(90,506)	84,535
Fund balances-beginning	563,670	563,670	563,670	-
Fund balances-ending	\$ 367,673	\$ 388,629	\$ 473,164	\$ 84,535

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Required Supplemental Information

June 30, 2015

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>2014</u>
Reporting unit's proportion of net pension liability (%)	0.03606165 %
Reporting unit's proportionate share of net pension liability	\$ 7,943,114
Reporting unit's covered employee payroll	\$ 3,065,070
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	259.15 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

Schedule of the Reporting Unit's Contributions

Michigan Public Schools Employees Retirement Plan

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

	<u>2014</u>
Statutorily required contributions	\$ 778,664
Contributions in relation to statutorily required contributions	778,664
Contribution deficiency (excess)	-
Reporting units covered-employee payroll	\$ 3,065,070
Contributions as a percentage of covered-employee payroll	25.40 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending October 301,2014.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending October 301,2014.

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OTHER SUPPLEMENTAL INFORMATION

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2015

	Food Service Fund	Debt Service Fund	Total
ASSETS			
Cash and investments	\$ 74,497	\$ 106,395	\$ 180,892
Intergovernmental receivable	1,715	-	1,715
Due from other funds	16,361	-	16,361
Inventories	5,091	-	5,091
Total assets	\$ 97,664	106,395	\$ 204,059
LIABILITIES			
Accounts payable	\$ 947	\$ -	\$ 947
Salaries payable	4,264	-	4,264
Intergovernmental payable	1,307	-	1,307
Unearned revenue	403	-	403
Total liabilities	6,921	-	6,921
FUND BALANCES			
Nonspendable - inventory	5,091	-	5,091
Restricted for food service	85,652	-	85,652
Restricted for debt service	-	106,395	106,395
Total fund balances	90,743	106,395	197,138
Total liabilities and fund balances	\$ 97,664	106,395	\$ 204,059

Onaway Area Community Schools

Cheboygan and Presque Isle Counties, Michigan

Nonmajor Governmental Funds

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

For the year ended June 30, 2015

	Food Service Fund	Debt Service Fund	Total
REVENUES			
Local sources	\$ 56,802	\$ 523,097	\$ 579,899
State sources	9,425	-	9,425
Federal sources	228,815	-	228,815
Total revenues	295,042	523,097	818,139
EXPENDITURES			
Current:			
Food service	284,509	-	284,509
Debt service			
Principal	-	480,000	480,000
Interest	-	33,096	33,096
Total expenditures	284,509	513,096	797,605
Net change in fund balances	10,533	10,001	20,534
Fund balances-beginning	80,210	96,394	176,604
Fund balances-ending	\$ 90,743	\$ 106,395	\$ 197,138