

**Onekama Consolidated Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2012

# CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	4
STATEMENT OF ACTIVITIES.....	5
BALANCE SHEET - GOVERNMENTAL FUNDS.....	6
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	7
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES .....	8
STATEMENT OF FIDUCIARY NET ASSETS.....	9
NOTES TO FINANCIAL STATEMENTS.....	10
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND .....	23
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
BALANCE SHEET.....	25
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES.....	26
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	27

# MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Onekama Consolidated School’s (the “District”) annual financial report presents a discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2012. It is to be read in conjunction with the District’s financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

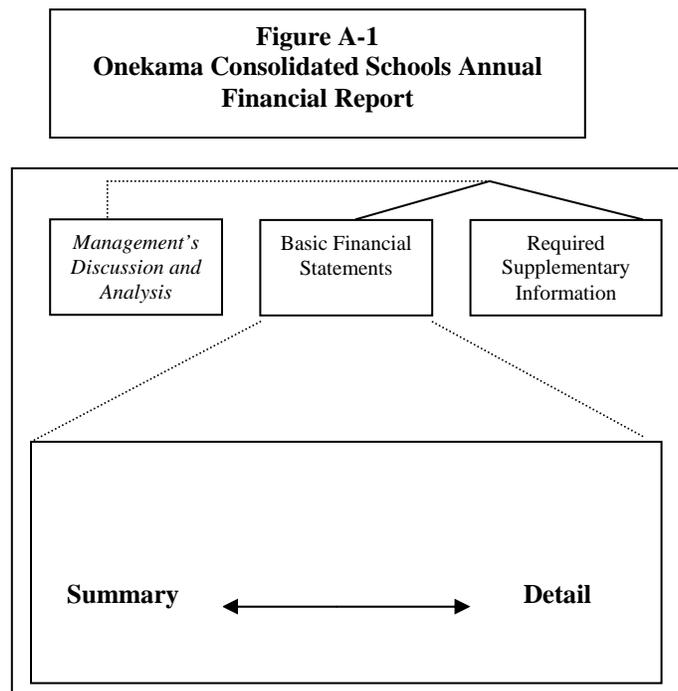
- The District’s financial status held constant during the year even though there was a decrease in the State foundation grant of \$470, loss of ARRA and Stabilization funds. This was due to an increase in the student count and a decrease in staffing positions.
- The State of Michigan foundation grant decreased by \$470 from \$8,386 to \$7,916.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



<b>Figure A-2</b>			
<b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets.
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and State formula aid finance most of these activities.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.

- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's *combined* net assets were more on June 30, 2012 than they were the year before – increasing by \$171,850 to \$1,798,223.

The District's financial position is the product of tighter controls on expenditures.

Summary of Net Assets (provides a perspective of the District as a whole).

	2011	2012
Current and other assets	\$ 1,580,418	\$ 1,458,148
Capital assets	17,051,244	16,674,716
Total assets	<u>18,631,662</u>	<u>18,132,864</u>
Long-term debt outstanding	15,839,380	15,290,263
Other liabilities	1,165,909	1,044,378
Total liabilities	<u>17,005,289</u>	<u>16,334,641</u>
Net assets		
Invested in property and equipment, net of related debt	888,505	1,098,666
Restricted for		
Capital Projects	148,019	-
Debt Service	65,055	63,048
Unrestricted	<u>524,794</u>	<u>636,509</u>
Total net assets	<u>\$ 1,626,373</u>	<u>\$ 1,798,223</u>

Statement of Activities (provides the results of operations of the District as a whole).

<b>Table A-4</b>		
Revenues	2011	2012
Property Taxes, levied for general purposes	\$ 2,730,806	\$ 2,716,789
Property Taxes, levied for debt services	1,171,427	1,173,976
State aid not restricted to specific purposes	440,720	513,776
Interest and other	93,636	118,653
Charges for services	261,342	279,297
Operating grants/contributions	572,157	372,936
Capital grants/contributions	-	36,616
Total revenues	<u>5,270,088</u>	<u>5,212,043</u>
Expenses		
Instruction	2,241,477	2,090,558
Support services	1,410,062	1,408,886
Community services	6,257	6,197
Food services	168,768	180,396
Leaps and bounds	153,309	164,031
Other	13,243	12,224
Interest on long-term debt	696,418	682,425
Depreciation-unallocated	469,146	495,476
Total expenses	<u>5,158,680</u>	<u>5,040,193</u>
Increase in Net Assets	111,408	171,850
Net Assets - Beginning of year	<u>1,514,965</u>	<u>1,626,373</u>
Net Assets - End of year	<u><u>\$ 1,626,373</u></u>	<u><u>\$ 1,798,223</u></u>

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,119,413; an increase of \$20,980 over last year's ending fund balances of \$1,098,433

## General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are as follows:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the final budget for the general fund anticipated that revenues and expenditures would reflect a decrease of \$88,505, the actual results for the year show an increase of \$35,197 due to conservative budgeting of expense line items.
- Actual revenues were \$3,657,225 or \$25,549 more than expected.
- Actual expenditures were \$3,638,449 or \$98,243 below budget, due primarily to conservative budgeting of supplies and utilities.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Depreciable assets for the 2011-2012 school year totaled \$19,228,891. During the year, the District invested an additional \$118,948 in busses, vehicles and equipment. A summary of capital assets follows:

	2011	Additions	Deletions	2012
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Capital assets being depreciated:				
Building and building improvements	18,054,960	-	-	18,054,960
Buses and other vehicles	356,080	74,015	-	430,095
Furniture and equipment	698,903	44,933	-	743,836
Gross capital assets	19,511,909	118,948	-	19,630,857
Less accumulated depreciation:	(2,460,665)	(495,476)	-	(2,956,141)
Construction-in-process	-	-	-	-
Net governmental capital assets	\$ 17,051,244	\$ (376,528)	\$ -	\$ 16,674,716

## Long-term Debt

At year-end the District had \$15,795,000 in general obligation bonds and \$43,800 in note payable obligations.

	2011	Net Additions/ (Payments)	2012
General obligation debts			
(financed with property taxes)	\$ 16,295,000	\$ (500,000)	\$ 15,795,000
Note Payable/Capital lease	12,761	31,039	43,800
Unamortized bond premium	98,393	(4,742)	93,651
Unamortized bond issuance costs	(199,274)	9,604	(189,670)
Early retirement liability	112,139	(62,697)	49,442
Accumulated Sick & Vacation	90,957	2,334	93,291
<b>Total</b>	<b>\$ 16,409,976</b>	<b>\$ (524,462)</b>	<b>\$ 15,885,514</b>

## FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2012-2013 foundation allowance is expected to remain constant. Student enrollment is always fluctuating and a concern but it is expected to remain constant for the year.
- The Board of Education and the Onekama Education Association had a contract through the year ended August 21, 2011 and are currently negotiating a current contract.
- The Michigan Public School Employees' Retirement System ("MPSERS") system will be reformed in the upcoming year which will freeze the employer contribution level at 24.46%.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Onekama Consolidated School District Business Office at 772 E Parkdale Ave, Manistee, MI, 49660.



Business and Financial Advisors  
*Our clients' success – our business*

Thomas E. Gartland, CPA  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Onekama Consolidated Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Onekama Consolidated Schools* (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Onekama Consolidated Schools as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2012, on our consideration of the School District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through vii, and page 23 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major 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 financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dennis, Gartland & Niergarth*

September 25, 2012

# Onekama Consolidated Schools

## STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and equivalents	\$ 1,273,922
Other receivables	3,885
Due from other governments	160,304
Prepaid expenses	<u>20,037</u>
Total current assets	1,458,148
Non-current assets	
Capital assets, net of accumulated depreciation	<u>16,674,716</u>
Total assets	<u><u>\$ 18,132,864</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 50,830
Salaries payable and related expenses	263,571
Accrued interest	110,392
Deferred revenue	24,334
Current portion of long-term liabilities	<u>595,251</u>
Total current liabilities	1,044,378
Non-current portion of long-term obligations	<u>15,290,263</u>
Total liabilities	<u>16,334,641</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,098,666
Restricted for	
Debt Service	63,048
Unrestricted	<u>636,509</u>
Total net assets	<u>1,798,223</u>
Total liabilities and net assets	<u><u>\$ 18,132,864</u></u>

The accompanying notes are an integral part of these financial statements.

# Onekama Consolidated Schools

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Program	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 2,090,558	\$ -	\$ 222,872	\$ -	\$ (1,867,686)
Supporting Services	1,408,886	39,131	47,221	36,616	(1,285,918)
Community Services	6,197	-	-	-	(6,197)
Food Service	180,396	81,494	102,843	-	3,941
Leaps and Bounds	164,031	158,672	-	-	(5,359)
Other	12,224	-	-	-	(12,224)
Interest on long-term debt	682,425	-	-	-	(682,425)
Depreciation, unallocated	495,476	-	-	-	(495,476)
Total governmental activities	<u>\$ 5,040,193</u>	<u>\$ 279,297</u>	<u>\$ 372,936</u>	<u>\$ 36,616</u>	<u>(4,351,344)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					2,716,789
Levied for Debt Service					1,173,976
State school aid - unrestricted					513,776
Investments and other					118,653
Total general purpose revenues					<u>4,523,194</u>
Change in net assets					171,850
Net assets, beginning of year					1,626,373
Net assets, end of year					\$ 1,798,223

-5- The accompanying notes are an integral part of these financial statements.

# Onekama Consolidated Schools

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	Major Fund				Total Governmental Funds
	General Fund	2007 Debt Retirement Fund	Capital Projects Fund	Non-major Governmental Funds	
<b>ASSETS</b>					
Cash and equivalents	\$ 885,069	\$ 68,503	\$ 166,731	\$ 153,619	\$ 1,273,922
Due from other governments	159,102	-	-	1,202	160,304
Accounts receivables	-	-	-	3,885	3,885
Due from other funds	1,200	-	-	50	1,250
Prepaid/deferred expenditures	<u>17,775</u>	<u>-</u>	<u>-</u>	<u>2,262</u>	<u>20,037</u>
Total assets	<u>\$ 1,063,146</u>	<u>\$ 68,503</u>	<u>\$ 166,731</u>	<u>\$ 161,018</u>	<u>\$ 1,459,398</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 45,145	\$ -	\$ -	\$ 5,685	\$ 50,830
Salaries payable and related expenses	261,181	-	-	2,390	263,571
Due to other funds	50	-	-	1,200	1,250
Deferred revenue	<u>21,591</u>	<u>-</u>	<u>-</u>	<u>2,743</u>	<u>24,334</u>
Total liabilities	<u>327,967</u>	<u>-</u>	<u>-</u>	<u>12,018</u>	<u>339,985</u>
<b>FUND BALANCES</b>					
Nonspendable - prepaids	17,775	-	-	2,262	20,037
Restricted					
Debt Service	-	68,503	-	104,937	173,440
Committed - subsequent year expenditures	264,429	-	-	-	264,429
Assigned					
Building improvements	-	-	166,731	-	166,731
Compensated absences	93,291	-	-	-	93,291
Early retirement incentives	49,442	-	-	-	49,442
School based activities	-	-	-	41,801	41,801
Unassigned	<u>310,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,242</u>
Total fund balances	<u>735,179</u>	<u>68,503</u>	<u>166,731</u>	<u>149,000</u>	1,119,413
Total liabilities and fund balances	<u>\$ 1,063,146</u>	<u>\$ 68,503</u>	<u>\$ 166,731</u>	<u>\$ 161,018</u>	

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$19,630,857 and the accumulated depreciation is \$2,956,141.

16,674,716

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 15,795,000	
Notes payable	43,800	
Unamortized bond premium	93,651	
Unamortized bond issuance costs	(189,670)	
Accrued interest on bonds	110,392	
Early retirement incentive payable	49,442	
Accumulated leave liability	<u>93,291</u>	<u>(15,995,906)</u>

Total net assets - governmental activities

\$ 1,798,223

The accompanying notes are an integral part of these financial statements.

## Onekama Consolidated Schools

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2012

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	2007 Debt Retirement Fund	Capital Projects Fund		
Revenues					
Property taxes	\$2,716,789	\$ 525,819	\$ -	\$ 648,157	\$ 3,890,765
Interest	1,487	136	179	2,677	4,479
State revenues	640,684	-	-	6,579	647,263
Federal revenues	136,955	-	-	107,649	244,604
Other	<u>161,310</u>	<u>-</u>	<u>18,533</u>	<u>245,089</u>	<u>424,932</u>
Total revenues	<u>3,657,225</u>	<u>525,955</u>	<u>18,712</u>	<u>1,010,151</u>	<u>5,212,043</u>
Expenditures					
Instruction	2,150,921	-	-	-	2,150,921
Supporting Services	1,368,854	-	-	-	1,368,854
Community Services	6,197	-	-	-	6,197
Food Service	-	-	-	180,396	180,396
Leaps and Bounds	-	-	-	164,031	164,031
Other	2,500	-	-	-	2,500
Debt Service					
Principal	16,385	120,000	-	380,000	516,385
Interest	7,244	415,624	-	262,493	685,361
Other	-	-	-	1,238	1,238
Capital outlay	<u>112,477</u>	<u>-</u>	<u>-</u>	<u>46,503</u>	<u>158,980</u>
Total expenditures	<u>3,664,578</u>	<u>535,624</u>	<u>-</u>	<u>1,034,661</u>	<u>5,234,863</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(7,353)</u>	<u>(9,669)</u>	<u>18,712</u>	<u>(24,510)</u>	<u>(22,820)</u>
Other financing sources (uses)					
Interfund transfers in	-	-	-	1,250	1,250
Interfund transfers out	(1,250)	-	-	-	(1,250)
Proceeds from loan	<u>43,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,800</u>
Total other financing sources (uses)	<u>42,550</u>	<u>-</u>	<u>-</u>	<u>1,250</u>	<u>43,800</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	35,197	(9,669)	18,712	(23,260)	20,980
Fund balance, beginning of year	<u>699,982</u>	<u>78,172</u>	<u>148,019</u>	<u>172,260</u>	<u>1,098,433</u>
Fund balance, end of year	<u>\$ 735,179</u>	<u>\$ 68,503</u>	<u>\$ 166,731</u>	<u>\$ 149,000</u>	<u>\$ 1,119,413</u>

The accompanying notes are an integral part of these financial statements.

## Onekama Consolidated Schools

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

**Total net change in fund balances - governmental funds** \$ 20,980

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 118,948	
Depreciation expense	<u>(495,476)</u>	(376,528)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was more than the amounts used by \$2,334. Early retirement incentives paid were more than amounts earned by \$62,697.

60,363

Repayment of bond principal and capitalized leases are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

512,761

Some of the capital assets acquired this year were financed with loan proceeds. The amount financed by the proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.

(43,800)

Amortization of bond premium.

4,742

Amortization of bond issuance costs.

(9,604)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower amount of interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.

2,936

**Changes in net assets of governmental activities** \$ 171,850

# Onekama Consolidated Schools

## STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 90,982</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 90,982</u>

The accompanying notes are an integral part of these financial statements.

# Onekama Consolidated Schools

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Onekama Consolidated Schools (the "School District") is a Michigan public school district consisting of one K-12 building. The School District primarily serves the Onekama and Arcadia communities. As of June 30, 2012, the School District employed 26 professional staff and 27 non-professional staff, and had 417 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2012.

#### *Financial Reporting Entity*

Onekama Consolidated Schools' Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

#### *Government-Wide and Fund Financial Statements*

##### *Government-Wide Financial Statements*

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

### *Fund Types and Major Funds*

#### *Activities in Major Funds*

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

The 2007 Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

NOTES TO FINANCIAL STATEMENTS - Continued

*Non-major Governmental Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are committed or restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service and Leaps and Bounds Funds.

The 2007-2008 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

The 2004 and 2008 Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

*Fiduciary Funds*

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*Cash and Cash Equivalents*

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

*Capital Assets*

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	7-50 years
Buses and vehicles	8 years
Furniture and equipment	5-20 years

*Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums*

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

## NOTES TO FINANCIAL STATEMENTS - Continued

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as other financing uses.

### ***Fund Equity***

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School District Board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the School District Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

### ***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, ARRA Stabilization and At-Risk Program, which are reported as operating grants and contributions.

### ***Spending Policy***

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

### ***Encumbrance Accounting***

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

### ***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

NOTES TO FINANCIAL STATEMENTS - Continued

*Use of Estimates in the Preparation of Financial Statements*

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**NOTE B - BUDGETARY POLICY AND PRACTICE**

*Excess of Expenditures over Appropriations in Budgeted Funds*

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2012, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction - Basic Programs	\$ 1,736,417	\$ 1,757,133	\$ 20,716
Community Services	6,000	6,197	197
Other Financing Uses	27,289	27,379	90

**NOTE C - CASH AND EQUIVALENTS**

At June 30, 2012, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Bank deposits	\$ 673,056
Investments	<u>691,848</u>
	<u>\$ 1,364,904</u>

*Bank Deposits*

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

*Custodial Credit Risk - Deposits*

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2012, \$235,001 of the School District's bank balance of \$688,539 was exposed to custodial credit risk because it is uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS - Continued

***Investments***

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2012 consisted of the following:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 691,848</u>	<u>\$ 691,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

***Interest Rate Risk***

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market fund, or similar investment pools and limiting the average maturity.

***Credit Risk***

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District further limits its investment choices as described above. The School District's investment in the Michigan Liquid Asset Fund ("MILAF") investment pool was rated AAAM by Standard & Poor's.

**NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE**

*Property Taxes Receivable, Deferred Revenue and Property Tax Calendar*

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18.00 per \$1,000 of equalized non-principal residence property value of \$149.92 million and \$6 per \$1,000 of equalized commercial personal property value of \$1.91 million was levied for general operating purposes. For Debt Service, \$4.36 per \$1,000 of total equalized property value of \$268.9 million was levied for bonded debt repayments by the Debt Service Fund.

*Intergovernmental Receivables and Deferred Revenue*

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2012 are as follows:

Due from the State of Michigan	
State aid	\$ 135,918
Due from Federal grants	20,501
Due from other sources	<u>3,885</u>
	<u>\$ 160,304</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Buildings and improvements	\$ 18,054,960	\$ -	\$ -	\$ -	\$ 18,054,960
Buses and vehicles	356,080	74,015	-	-	430,095
Furniture and equipment	<u>698,903</u>	<u>44,933</u>	-	-	<u>743,836</u>
Total depreciable assets	19,109,943	118,948	-	-	19,228,891
Less accumulated depreciation	(2,460,665)	(495,476)	-	-	(2,956,141)
Land	<u>401,966</u>	-	-	-	<u>401,966</u>
Total capital assets, net	<u>\$ 17,051,244</u>	<u>\$ (376,528)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,674,716</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 495,476</u>
-------------	-------------------

**NOTE F - LONG-TERM LIABILITIES**

Changes in long-term debt during the year ended June 30, 2012 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 16,295,000	\$ -	\$ (500,000)	\$ 15,795,000	\$ 540,000
Notes payable	-	43,800	-	43,800	10,671
Capital lease	12,761	-	(12,761)	-	-
Unamortized bond premium	98,393	-	(4,742)	93,651	4,742
Unamortized bond issuance costs	(199,274)	-	9,604	(189,670)	(9,604)
Early retirement liability	112,139	-	(62,697)	49,442	49,442
Accumulated leave liability	<u>90,957</u>	-	<u>2,334</u>	<u>93,291</u>	-
Long-term debt	<u>\$ 16,409,976</u>	<u>\$ 43,800</u>	<u>\$ (568,262)</u>	<u>\$ 15,885,514</u>	<u>\$ 595,251</u>

Payments on general obligation bonds are made by the Debt Service Fund. Payments on notes payable and the capital lease are made by the General Fund. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2012, the School District's long-term debt consisted of the following:

\$3,645,000 2004 School District refunding general obligation bonds for the advance refunding of the School District's 1996 bond issue; due in annual installments of \$305,000 to \$330,000 through 2018; interest rates from 3.05% to 4.10%.	\$ 2,215,000
\$9,840,000 2007 School Building and Site general obligation bonds; due in annual installments of \$135,000 to \$770,000 through May 2032; interest rates from 4.00% to 5.00%; due semi-annually.	9,500,000
\$4,260,000 2008 School Building and Site general obligation bonds; due in annual installments beginning May 1, 2010 of \$75,000 to \$275,000 through May 2032; interest rates from 3.50% to 4.50%; due semi-annually.	4,080,000
Note payable for a bus with a cost of \$74,015; due in annual installments of \$11,425 through August 2015; interest rate of 1.72%; due semi-annually.	<u>43,800</u>
Total general obligation bonds and capital leases	15,838,800
Unamortized bond premium	93,651
Unamortized bond issuance costs	(189,670)
Early retirement liability	49,442
Accumulated leave liability	<u>93,291</u>
Total long-term debt	<u><u>\$15,885,514</u></u>

Total annual requirements to amortize long-term debt outstanding as of June 30, 2012 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 550,671	\$ 661,322
2014	570,855	641,891
2015	591,042	621,354
2016	611,232	599,173
2017	625,000	576,380
2018-2022	3,550,000	2,449,280
2023-2027	4,300,000	1,628,164
2028-2032	<u>5,040,000</u>	<u>660,774</u>
	<u><u>\$15,838,800</u></u>	<u><u>\$ 7,838,338</u></u>

Interest expense for the year ended June 30, 2012 was \$682,425, and interest paid was \$685,361.

***Accumulated Leave Liability***

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after four years of employment. Upon either resignation or retirement, the employees are compensated at a daily rate specified in the bargaining units' contracts.

***Early Retirement Incentives***

The School District has an early retirement incentive program for eligible teachers. Under the program, teachers can elect to receive contributions of \$500 per month until the eligible amount is paid in full depending on retirement date. The teachers may elect payment to themselves or their 403(b) retirement account. As of June 30, 2012, the amount due to teachers in the program was \$49,442.

**NOTE G - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Onkama Consolidated Schools. At June 30, 2012, there were no significant unbilled claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

***Receivables and Payables***

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General	\$ 1,200	\$ 50
Other Governmental Funds		
Food Service	50	-
Leaps and Bounds	<u>-</u>	<u>1,200</u>
	<u>\$ 1,250</u>	<u>\$ 1,250</u>

***Transfers and Payments***

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Food Service Fund	<u>\$ 1,250</u>	General Fund	<u>\$ 1,250</u>

**NOTE I - PENSION PLAN**

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, PO Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at [www.Michigan.gov](http://www.Michigan.gov).

***Funding Policy***

Plan members who participate in MIP are required to contribute 3.0% to 6.4% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the plan; and the School District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rate was 20.66% and 19.16%, dependent upon entrance date, for the period July 1, 2011 to September 30, 2011, and 24.46% and 23.23%, dependent upon entrance date, for the period October 1, 2011 to June 30, 2012, of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2012, 2011 and 2010, were \$400,949, \$358,675 and \$319,880, respectively.

***Post-Employment Benefits***

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***Federal and State Grants***

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Onekama Education Association. The Board of Education and the Onekama Education Association had a contract through August 21, 2011. A new contract is in the process of being negotiated.

**REQUIRED SUPPLEMENTARY INFORMATION**

# Onekama Consolidated Schools

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		Original to	Final Budget
				Final Budget	To Actual
<b>Revenues</b>					
Local and intermediate sources	\$ 2,782,446	\$ 2,808,280	\$ 2,837,265	\$ 25,834	\$ 28,985
State revenues	483,173	662,167	640,684	178,994	(21,483)
Federal revenues	145,675	138,229	136,955	(7,446)	(1,274)
Other	<u>16,490</u>	<u>23,000</u>	<u>42,321</u>	<u>6,510</u>	<u>19,321</u>
Total revenues	<u>3,427,784</u>	<u>3,631,676</u>	<u>3,657,225</u>	<u>203,892</u>	<u>25,549</u>
<b>Expenditures</b>					
<b>Instruction</b>					
Basic programs	1,675,288	1,736,417	1,757,133	(61,129)	(20,716)
Added needs	<u>415,902</u>	<u>428,533</u>	<u>393,788</u>	<u>(12,631)</u>	<u>34,745</u>
Total instruction	<u>2,091,190</u>	<u>2,164,950</u>	<u>2,150,921</u>	<u>(73,760)</u>	<u>14,029</u>
<b>Support services</b>					
Pupil support	107,356	70,751	70,202	36,605	549
Instruction staff support	14,421	15,584	11,973	(1,163)	3,611
General administration	196,491	206,241	194,895	(9,750)	11,346
School administration	149,343	173,621	170,619	(24,278)	3,002
Business services	129,881	122,775	114,951	7,106	7,824
Operations and maintenance	491,959	469,622	445,296	22,337	24,326
Transportation	149,122	236,824	226,418	(87,702)	10,406
Other central support	<u>254,163</u>	<u>270,324</u>	<u>246,977</u>	<u>(16,161)</u>	<u>23,347</u>
Total support services	<u>1,492,736</u>	<u>1,565,742</u>	<u>1,481,331</u>	<u>(73,006)</u>	<u>84,411</u>
Community services	<u>6,000</u>	<u>6,000</u>	<u>6,197</u>	<u>-</u>	<u>(197)</u>
Total expenditures	<u>3,589,926</u>	<u>3,736,692</u>	<u>3,638,449</u>	<u>(146,766)</u>	<u>98,243</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(162,142)</u>	<u>(105,016)</u>	<u>18,776</u>	<u>57,126</u>	<u>123,792</u>
<b>Other financing sources (uses)</b>					
Other financing uses	(25,753)	(27,289)	(27,379)	(1,536)	(90)
Proceeds from capital lease	<u>-</u>	<u>43,800</u>	<u>43,800</u>	<u>43,800</u>	<u>-</u>
Total other financing sources (uses)	<u>(25,753)</u>	<u>16,511</u>	<u>16,421</u>	<u>42,264</u>	<u>(90)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(187,895)	(88,505)	35,197	99,390	123,702
Fund balance, beginning of year	<u>559,385</u>	<u>699,982</u>	<u>699,982</u>	<u>140,597</u>	<u>-</u>
Fund balance, end of year	<u>\$ 371,490</u>	<u>\$ 611,477</u>	<u>\$ 735,179</u>	<u>\$ 239,987</u>	<u>\$ 123,702</u>

## **COMBINING FINANCIAL STATEMENTS**

# Onekama Consolidated Schools

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2012

	Special Revenue Funds		Debt Retirement Funds		Capital Projects Funds	Total
	Food Service	Leaps and Bounds	2004 Debt Retirement Fund	2008 Debt Retirement Fund	2007-08 Capital Projects Fund	Non-Major Governmental
<b>ASSETS</b>						
Cash and cash equivalents	\$ 32,166	\$ 10,866	\$ 61,517	\$ 43,420	\$ 5,650	\$ 153,619
Due from other governments	1,202	-	-	-	-	1,202
Accounts receivables	-	3,885	-	-	-	3,885
Due from other funds	50	-	-	-	-	50
Prepaid expenses	2,262	-	-	-	-	2,262
Total assets	<u>\$ 35,680</u>	<u>\$ 14,751</u>	<u>\$ 61,517</u>	<u>\$ 43,420</u>	<u>\$ 5,650</u>	<u>\$ 161,018</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ 35	\$ -	\$ -	\$ 5,650	\$ 5,685
Salaries payable and related expenses	493	1,897	-	-	-	2,390
Deferred revenue	-	2,743	-	-	-	2,743
Due to other funds	-	1,200	-	-	-	1,200
Total liabilities	493	5,875	-	-	5,650	12,018
<b>FUND BALANCES</b>						
Nonspendable - prepaids	2,262	-	-	-	-	2,262
Restricted - Debt Service	-	-	61,517	43,420	-	104,937
Assigned - school-based activities	32,925	8,876	-	-	-	41,801
Total fund balances	35,187	8,876	61,517	43,420	-	149,000
Total liabilities and fund balances	<u>\$ 35,680</u>	<u>\$ 14,751</u>	<u>\$ 61,517</u>	<u>\$ 43,420</u>	<u>\$ 5,650</u>	<u>\$ 161,018</u>

## Onekama Consolidated Schools

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2012

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>		<u>Capital Projects Funds</u>	Total Non-Major Governmental
	<u>Food Service</u>	<u>Leaps and Bounds</u>	<u>2004 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>	<u>2007-2008 Capital Projects Fund</u>	
Revenues						
Property taxes	\$ -	\$ -	\$ 409,127	\$ 239,030	\$ -	\$ 648,157
Interest	13	2	224	76	2,362	2,677
State revenues	6,579	-	-	-	-	6,579
Federal revenues	102,843	4,806	-	-	-	107,649
Other	<u>82,403</u>	<u>162,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>245,089</u>
Total revenues	<u>191,838</u>	<u>167,494</u>	<u>409,351</u>	<u>239,106</u>	<u>2,362</u>	<u>1,010,151</u>
Expenditures						
Food Service	180,396	-	-	-	-	180,396
Leaps and Bounds	-	164,031	-	-	-	164,031
Debt Service						
Principal	-	-	320,000	60,000	-	380,000
Interest	-	-	93,958	168,535	-	262,493
Other	-	-	238	1,000	-	1,238
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,503</u>	<u>46,503</u>
Total expenditures	<u>180,396</u>	<u>164,031</u>	<u>414,196</u>	<u>229,535</u>	<u>46,503</u>	<u>1,034,661</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	11,442	3,463	(4,845)	9,571	(44,141)	(24,510)
Other financing sources						
Interfund transfers in	<u>1,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,250</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	12,692	3,463	(4,845)	9,571	(44,141)	(23,260)
Fund balance, beginning of year	<u>22,495</u>	<u>5,413</u>	<u>66,362</u>	<u>33,849</u>	<u>44,141</u>	<u>172,260</u>
Fund balance, end of year	<u>\$ 35,187</u>	<u>\$ 8,876</u>	<u>\$ 61,517</u>	<u>\$ 43,420</u>	<u>\$ -</u>	<u>\$ 149,000</u>



Business and Financial Advisors  
*Our clients' success – our business*

Thomas E. Gartland, CPA  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Onekama Consolidated Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Onekama Consolidated Schools* (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 25, 2012. 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.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the following deficiency to be a material weakness in internal control:

*Preparation of Financial Statements*

The above definition of a material weakness includes any condition that adversely affects the School District's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the School District has always relied upon its independent external auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. The financial statements prepared by the auditors are then reviewed and approved by the School District.

Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition, be considered a part of the School District's internal control. In this regard, the School District is not unlike many other schools of its size.

*Compliance and Other Matters*

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

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

September 25, 2012