

ONTONAGON AREA SCHOOL DISTRICT

REPORT ON FINANCIAL STATEMENTS
(with additional information)

For the Year Ended June 30, 2018

ONTONAGON AREA SCHOOL DISTRICT

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ONTONAGON AREA SCHOOL DISTRICT

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Ontonagon Area School District
Ontonagon, Michigan

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and each fiduciary fund type of the Ontonagon Area School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 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 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, each major fund, and each fiduciary fund type of the Ontonagon Area School District as of June 30, 2018, and the respective changes in financial position and 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 management's discussion and analysis, budgetary comparison schedules, and pension related schedules as listed in the table of contents 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 29, 2018 on our consideration of Ontonagon Area School District's internal control and 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* in considering Ontonagon Area School District's internal control over financial reporting and compliance.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

October 29, 2018

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Ontonagon Area School District's Management Discussion and Analysis is intended to assist the reader to focus on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position including its ability to address the next and subsequent years' challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" as amended by GASB Statement No. 63 "Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 68 and 75 Accounting and Financial Reporting for Pensions and Other Post Employment Benefits, and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68" and is intended to provide the financial results for the fiscal year ending June 30, 2018.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
(other than MD&A expanded)

As mentioned, GASB 34, as amended by GASB Statement No. 63 and 65, requires the presentation of two basic types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

District-Wide Financial Statements

The District-Wide Financial Statements provide a perspective of the District as a whole. These financial statements use the full accrual basis of accounting similar to private sector companies. There are two District-Wide Financial Statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates governmental funds: current financial resources (short-term available resources) (assets, liabilities, and deferred outflow/inflow of resources) with capital assets and long-term obligations, regardless of their current availability.

Consistent with the full accrual basis method of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Fund Financial Statements

The Fund Financial Statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounts. Under this basis of accounting, revenues are recorded when received, except when they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, Capital Project Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. For fiscal year ending June 30, 2018 and 2017, Athletics is combined with the General Fund. Its revenues are derived from property taxes, state and federal distributions and grants, and other intergovernmental revenues. The School Service Fund is comprised of Food Service. The Debt Retirement Fund is used to record the funding and payment of principal and interest on bonded debt. The Capital Project Fund is used to account for financial resources to be used for acquisition, construction, or improvements of major capital facilities. The Fiduciary Funds account for assets held by the District in a trustee capacity, or as an agent for various student groups and related activities.

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Financial Analysis of the District as a Whole

Summary of Net Position

	<u>June 30, 2018</u>	<i>(As reported)</i> <u>June 30, 2017</u>
Assets:		
Current assets	\$ 679,661	\$ 740,221
Net capital assets	<u>2,984,036</u>	<u>2,873,085</u>
Total assets	<u>3,663,697</u>	<u>3,613,306</u>
Deferred Pension Outflows	<u>1,114,903</u>	<u>658,378</u>
Liabilities:		
Current liabilities	616,676	688,948
Long term liabilities	<u>8,245,040</u>	<u>6,705,433</u>
Total liabilities	<u>8,861,716</u>	<u>7,394,381</u>
Deferred Pension Inflows	<u>547,017</u>	<u>116,903</u>
Net Position:		
Net investment in capital assets	1,379,388	1,022,411
Restricted for debt service	69,347	107,924
Restricted for food service	24	(1,043)
Restricted for capital projects	119,790	166,464
Unrestricted	<u>(6,198,682)</u>	<u>(4,535,356)</u>
Total net position	<u>\$ (4,630,133)</u>	<u>\$ (3,239,600)</u>

The School District's net position was (deficit) \$(4,630,133) at June 30, 2018, compared to (deficit) \$(4,933,883) as adjusted* at June 30, 2017. Total net position can be separated into three categories: Net investment in capital assets, restricted assets for debt service, food service and capital projects, and unrestricted assets. **See Note 15 on prior period adjustment*

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Net capital assets are a combination of funds available for capital assets less accumulated depreciation and related debt. The original cost of capital assets was \$7,216,995 at June 30, 2018, and \$7,094,482 at June 30, 2017. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value, expensed over the estimated use life of the assets. Total accumulated depreciation was \$4,232,959 at June 30, 2018, and \$4,221,397 at June 30, 2017. Total debt related to capital assets was \$1,566,015 at June 30, 2018, and \$1,799,680 at June 30, 2017.

Restricted net position for debt are funds, by their nature, restricted for use by laws or regulations by the State of Michigan. These funds totaled \$189,161 at June 30, 2018, compared to \$273,345 at June 30, 2017.

The remaining balance in unrestricted net position represents a deficit balance of \$(6,198,682) at June 30, 2018, and deficit balance of \$(4,535,356) as originally reported at June 30, 2017 (*See Note 15 on prior period adjustment*). The deficit balances are a result of GASB Statement No. 68 and 75 "Accounting and Finance Reporting for Pensions and Other Post Employment Benefits which is effective for fiscal years beginning after June 15, 2014 and 2018. Additional information regarding GASB Statement No. 68 and 75 can be found in the audit report under Note 10 & 11.

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-Wide results of operations for the years ended June 30, 2018 and June 30, 2017 is as follows:

	<u>June 30, 2018</u>	(As reported) <u>June 30, 2017</u>
Program revenue		
Charges for services-local	\$ 145,629	\$ 133,263
Operating grants - federal state local	<u>351,452</u>	<u>392,234</u>
Total program revenue	<u>497,081</u>	<u>525,497</u>
General revenue		
Property taxes levied for general operations	1,948,046	1,723,679
Property taxes levied for debt service	164,348	488,544
State of Michigan aid, unrestricted	1,036,770	1,093,045
Other- federal, state and local	<u>79,496</u>	<u>59,504</u>
Total general revenue	<u>3,228,660</u>	<u>3,364,772</u>
Total revenue	<u>3,725,741</u>	<u>3,890,269</u>
Expenses		
Instruction	1,644,404	1,769,399
Support services	1,288,004	1,284,830
School service	283,393	288,038
Interest on long term debt	123,460	89,971
Depreciation (unallocated)	<u>82,730</u>	<u>106,647</u>
Total expenses	<u>3,421,991</u>	<u>3,538,885</u>
Changes in net position	303,750	351,384
Net Position July 1	<u>(4,933,883) *</u>	<u>(3,590,984)</u>
Net Position June 30	<u>\$ (4,630,133)</u>	<u>\$ (3,239,600)</u>

**See Note 15 on prior period adjustment*

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The overall condition of the governmental funds has increased during June 30, 2018 and June 30, 2017. In the General Fund, the excess of revenues over expenditures totaled \$46,710 during fiscal year June 30, 2018, and \$(42,731) during fiscal year June 30, 2017. The primary factors that contributed to this were a slight increase in student enrollment and passage of sinking fund millage.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments are known. The most significant fund budgeted is the General Fund operations. The General Fund operating budget was amended one time during fiscal year 2018.

General Fund Operations

In the General Fund operations, the actual revenue for fiscal year June 30, 2018 was \$3,186,750. This is above the original budget of \$3,111,665 and below the final budget of \$3,226,150 - a variance of 1.24%. The actual expenditures of the general fund for fiscal year June 30, 2018 operations were \$3,140,040. This is above the original budget of \$3,110,260 and below the final budget of \$3,241,350 - a variance of 3.23%.

GOVERNMENTAL FUND EXPENDITURES

Below is a summary of the governmental fund expenditures and their percentages as they relate to total governmental funds:

	Total Expenditures June 30, 2018	Percentage	Total Expenditures June 30, 2017	Percentage
General Fund	\$ 3,030,905	80.90%	\$ 3,167,038	77.10%
Debt Service Fund	313,380	8.36%	604,486	14.72%
Capital Projects Fund	237,005	6.33%	163,841	3.99%
Food Service Fund	165,119	4.41%	172,319	4.20%
Total Expenditures	<u>\$ 3,746,409</u>	<u>100.00%</u>	<u>\$ 4,107,684</u>	<u>100.00%</u>

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

TOTAL REVENUES

Below is a summary of the governmental fund revenues and their percentages as they relate to governmental funds.

	Total Revenue June 30, 2018	Percentage	Total Revenue June 30, 2017	Percentage
State of Michigan Aid unrestricted	\$ 1,036,770	27.83%	\$ 1,093,045	25.90%
Prop taxes general operation	1,948,046	52.29%	1,723,679	40.84%
Operating grants federal state local	356,410	9.57%	392,234	9.29%
Prop taxes debt retirement	164,348	4.41%	488,544	11.58%
Charges for services - local	145,629	3.91%	133,263	3.16%
Other federal state local	74,538	2.00%	59,504	1.41%
Bond Proceeds	-	0.00%	330,000	7.82%
	<hr/>		<hr/>	
Total Revenues	<u>\$ 3,725,741</u>	<u>100.00%</u>	<u>\$ 4,220,269</u>	<u>100.00%</u>

Unrestricted State Aid

The District is predominately funded by State Aid based on a blended count formula that the State of Michigan utilizes. State revenues to the District have decreased as a result of decreased enrollment from the previous years. State aid membership was 302.22 for fiscal year June 30, 2018 and 316.80 for fiscal year June 30, 2017. The foundation allowance increased \$120 per student from the previous year.

Property Taxes

The District levies 18 mills of property taxes on all Non-Homestead property located within the District for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value.

The District levied .60 to 1.90 mills of property taxes on all classes of property located within the District for bonded debt retirement. The levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations.

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Operating Grants Federal, State, and Local

The primary sources are the Federal Title One Program, the State funded At Risk Program and the Special Education Obligation funds required under the Headlee Amendment, State of Michigan legislation. Both Title One and At Risk Programs assist students who are deemed to be at risk in the instruction process. For the 2017-2018 fiscal year, the District has utilized \$100,584 for the Title One and \$93,408 for the State At Risk programs. For fiscal year 2018 the State, under the Headlee amendment, is obligated to remit to the District \$60,835.

ENROLLMENT

The District's 2017-2018 fall enrollment totaled 299. This is an increase of 2 students from the previous year. The district has been declining in enrollment for over twenty years and projects the decline to continue in the coming years. Ontonagon Area School District is located in Michigan's Upper Peninsula and continues to work through difficult economic times.

Enrollment changes over the last ten years can be illustrated as follows:

<u>Fiscal</u> <u>Year</u>	(Fall) Student <u>Enrollment</u>	(Decrease) in Student <u>Enrollment</u>
2018	299	2
2017	297	(19)
2016	316	(30)
2015	346	(33)
2014	379	(11)
2013	390	(20)
2012	410	(63)
2011	473	(44)
2010	517	(6)
2009	523	(27)

Student enrollment is important to the financial health of the District because state funding is based on a per pupil formula.

Ontonagon Area School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2018, the District had \$7,216,995 invested in land and building, furniture and equipment, vehicles and buses compared to \$7,094,482 at June 30, 2017. Of this amount, \$4,232,959 and \$4,221,397 has been depreciated at June 30, 2018 and June 30, 2017 respectively. Net book value totaled \$2,984,036 at June 30, 2018, and \$2,873,085 at June 30, 2017. Due to budget constraints related to declining enrollment and the State of Michigan financial status, the ability to maintain these buildings is becoming increasingly difficult. The District maintains a \$2,000 threshold for capitalization of assets.

Outstanding Debt at Year End

As of June 30, 2018 the District had \$1,566,015 in bonds outstanding, compared to \$1,799,680 at June 30, 2017. The District collects bonded debt across the total property values. Therefore, total growth in valuation is an important element in determining the District's ability to retire bonded debt and/or to incur additional bond debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Ontonagon Area School District. For additional detailed financial information contact:

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ONTONAGON AREA SCHOOL DISTRICT**STATEMENT OF NET POSITION**

June 30, 2018

	Governmental Activities
ASSETS:	
Current assets:	
Cash and equivalents	\$ 246,875
Investments	170,693
Accounts receivable	4,588
Inventory	29,046
Due from other governments	<u>228,459</u>
Total current assets	<u>679,661</u>
Noncurrent assets:	
Capital assets	7,216,995
Accumulated depreciation	<u>(4,232,959)</u>
Total noncurrent assets	<u>2,984,036</u>
TOTAL ASSETS	<u>3,663,697</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension outflows	1,025,156
Other post employment benefits outflows	<u>89,747</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,114,903</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	56,455
Accrued interest	16,621
Accrued expenses	184,438
Unearned revenues	13,901
State aid notes payable	150,000
Compensated absences	5,647
Early retirement	13,332
Bonds payable	163,665
Notes payable	<u>12,617</u>
Total current liabilities	<u>616,676</u>
Noncurrent liabilities:	
Compensated absences	26,587
Early retirement	26,666
Bonds payable	1,402,350
Notes payable	26,016
Net other post employment benefits liability	1,727,445
Net pension liability	<u>5,035,976</u>
Total noncurrent liabilities	<u>8,245,040</u>
TOTAL LIABILITIES	<u>8,861,716</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension inflows	488,617
Other post employment benefits inflows	<u>58,400</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>547,017</u>
NET POSITION:	
Net investment in capital assets	1,379,388
Restricted	189,161
Unrestricted	<u>(6,198,682)</u>
TOTAL NET POSITION	<u>\$ (4,630,133)</u>

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

ONTONAGON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Program Revenue			Net (Expense) Revenue and Change in Net Position	
				Primary Government	
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	\$ (1,644,404)	\$ 24,474	\$ 222,817	\$ -	(1,397,113)
	(1,288,004)	71,495	99,901	-	(1,116,608)
	(283,393)	49,660	28,734	-	(204,999)
	(123,460)	-	-	-	(123,460)
	(82,730)	-	-	-	(82,730)
	(3,421,991)	145,629	351,452	-	(2,924,910)
General revenues:					
Property taxes					\$ 2,112,394
State revenue sharing					1,036,770
Unrestricted investment earnings					4,958
Other					74,538
Total general revenues and transfers					3,228,660
Change in net position					303,750
Net position, beginning of year					(4,933,883)
Net position, end of year					\$ (4,630,133)

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

ONTONAGON AREA SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2018

	General	Debt Service	Capital Projects
ASSETS:			
Cash and equivalents	\$ 79,001	\$ 69,239	\$ 201
Investments	170,693	-	-
Accounts receivable	4,476	10	-
Inventory	24,627	-	-
Due from other funds	1	98	-
Due from other governments	228,459	-	-
TOTAL ASSETS	\$ 507,257	\$ 69,347	\$ 201
LIABILITIES:			
Accounts payable	\$ 56,075	\$ -	\$ -
State aid notes payable	150,000	-	-
Due to other funds	21,787	-	-
Accrued expenses	59,045	-	-
Salaries payable and related items	125,393	-	-
Unearned revenue	13,670	-	-
TOTAL LIABILITIES	425,970	-	-
FUND BALANCE AND OTHER CREDITS:			
Fund balances:			
Restricted	-	69,347	201
Nonspendable	24,627	-	-
Unassigned	56,660	-	-
TOTAL FUND BALANCE AND OTHER CREDITS	81,287	69,347	201
TOTAL LIABILITIES, FUND BALANCE AND OTHER	\$ 507,257	\$ 69,347	\$ 201

Sinking Fund	Food Service	Total Governmental Funds
\$ 97,807	\$ 627	\$ 246,875
-	-	170,693
93	9	4,588
-	4,419	29,046
21,689	-	21,788
-	-	228,459
<u>\$ 119,589</u>	<u>\$ 5,055</u>	<u>\$ 701,449</u>
\$ -	\$ 380	\$ 56,455
-	-	150,000
-	1	21,788
-	-	59,045
-	-	125,393
-	231	13,901
-	612	426,582
119,589	24	189,161
-	4,419	29,046
-	-	56,660
<u>119,589</u>	<u>4,443</u>	<u>274,867</u>
<u>\$ 119,589</u>	<u>\$ 5,055</u>	<u>\$ 701,449</u>

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

ONTONAGON AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

For the Year Ended June 30, 2018

Total fund balances for governmental funds	\$ 274,867
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Total capital assets	\$ 7,216,995	
Accumulated depreciation	<u>(4,232,959)</u>	

Net capital assets		2,984,036
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Deferred outflows of resources and deferred inflows of resources related to pensions and OPEB are not financial resources and therefore are not reported in the funds. Those resources consist of:

Deferred outflows of pension and OPEB resources	\$ 1,114,903	
Deferred inflows of pension and OPEB resources	<u>(547,017)</u>	

Net deferred pension and OPEB sources		567,886
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Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

Accrued interest on long-term debt	\$ (16,620)	
Bonds payable	(1,566,015)	
Notes payable	(38,633)	
Net pension liability	(5,035,976)	
OPEB liability	(1,727,445)	
Compensated absences and early retirement	<u>(72,233)</u>	<u>(8,456,922)</u>

Total net position of governmental activities		<u>\$ (4,630,133)</u>
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ONTONAGON AREA SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2018

REVENUES:	General	Debt Service	Capital Projects
Local sources	\$ 1,901,907	\$ 164,348	\$ 137
State sources	1,026,615	4,516	-
Federal sources	184,061	-	-
TOTAL REVENUES	3,112,583	168,864	137
EXPENDITURES:			
Instruction:			
Current	1,610,182	-	-
Capital outlay	569	-	-
Supporting services:			
Current	1,289,045	-	-
Capital outlay	11,727	-	150,216
Debt service	-	313,380	-
School service activities	119,382	-	-
TOTAL EXPENDITURES	3,030,905	313,380	150,216
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	81,678	(144,516)	(150,079)
OTHER FINANCING SOURCES (USES):			
Payments received from other governmental units	38,756	-	-
Transfers in	-	105,939	(16,184)
Other sources	35,411	-	-
Other uses	(15,380)	-	-
Transfers out	(93,755)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(34,968)	105,939	(16,184)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	46,710	(38,577)	(166,263)
FUND BALANCE, JULY 1	34,577	107,924	166,464
FUND BALANCE, JUNE 30	\$ 81,287	\$ 69,347	\$ 201

Sinking Fund	Food Service	Total Governmental Funds
\$ 206,378	\$ 58,072	\$ 2,330,842
-	5,639	1,036,770
-	99,901	283,962
<u>206,378</u>	<u>163,612</u>	<u>3,651,574</u>
-	-	1,610,182
-	-	569
23	-	1,289,068
86,766	-	248,709
-	-	313,380
-	165,119	284,501
<u>86,789</u>	<u>165,119</u>	<u>3,746,409</u>
<u>119,589</u>	<u>(1,507)</u>	<u>(94,835)</u>
-	-	38,756
-	4,000	93,755
-	-	35,411
-	-	(15,380)
-	-	(93,755)
<u>-</u>	<u>4,000</u>	<u>58,787</u>
119,589	2,493	(36,048)
<u>-</u>	<u>1,950</u>	<u>310,915</u>
<u>\$ 119,589</u>	<u>\$ 4,443</u>	<u>\$ 274,867</u>

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

ONTONAGON AREA SCHOOL DISTRICT

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, 2018

Net changes in fund balances - total governmental funds	\$ (36,048)
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The change in net position reported for governmental activities in the statement of activities is different because:

<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$237,930 exceeded depreciation expense \$(123,460).</p>	114,470
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<p>The change in net pension and OPEB liability is not recorded in the governmental funds. However, in the statement of activities this change is recognized as an adjustment to instruction, support and school service expenses as it relates to these categories.</p>	10,654
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Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal repayments:

Bond principal	\$ 233,665	
Notes payable	<u>12,361</u>	246,026

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences and early retirement	(28,339)
Accrued interest	<u>(3,013)</u>
Change in net position of governmental activities	<u>\$ 303,750</u>

ONTONAGON AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

June 30, 2018

	Expendable Trust Fund	Non-Expendable Trust Fund	Agency Fund
	Scholarships	Scholarships	Student Activity
ASSETS:			
Cash & Investments	\$ 7,443	\$ 4,740	\$ 49,563
Due from other funds	-	-	-
TOTAL ASSETS	7,443	4,740	49,563
LIABILITIES:			
Due to student groups	-	-	49,563
NET POSITION:			
Reserved	\$ 7,443	\$ 4,740	\$ -



ONTONAGON AREA SCHOOL DISTRICT

**CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

For the Year Ended June 30, 2018

	Expendable Trust Fund <u>Scholarships</u>	Non -Expendable Trust Fund <u>Scholarships</u>
ADDITIONS:		
Interest and contributions	<u>3,152</u>	<u>-</u>
TOTAL ADDITIONS	<u>3,152</u>	<u>-</u>
DEDUCTIONS:		
Scholarships / Charges	<u>-</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>-</u>	<u>-</u>
Change in net position	3,152	-
NET POSITION:		
BEGINNING OF YEAR	<u>4,291</u>	<u>-</u>
NET POSITION:		
END OF YEAR	<u>\$ 7,443</u>	<u>\$ -</u>

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Ontonagon Area School District ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the statement include the following:

An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all the District's activities.

A change in the fund financial statements to focus on the major funds.

Effective for periods beginning after December 15, 2011, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods after December 15, 2012, GASB 65, *Items Previously Reported as Assets and Liabilities*, amends Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and effective for periods beginning after June 15, 2014, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, and effective for periods after June 15, 2017, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Statements No. 63 and No. 65 establish standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Statements No. 68 and No. 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures for defined benefit pension plans.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement the provisions of the Statements.

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement No. 14, *The Financial Reporting Entity* and as amended by GASB Statement No. 61.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based on the foregoing criteria, it has been determined that there are no component units of the Ontonagon Area School District.

B. Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities except for fiduciary activities.

In the government-wide Statement of Net Position, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into generic fund types in two broad fund categories as follows:

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basic Financial Statements – Fund Financial Statements (Continued)

Governmental Funds – Governmental funds are used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities, except for those accounted for in fiduciary funds. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial transactions of the District, except those required to be accounted for in other funds.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Fund to account for the Ontonagon Area School District's activity.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds – Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Expendable Trust Fund – The expendable trust fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Non-Expendable Trust Fund – The non-expendable trust fund is accounted for utilizing the accrual method of accounting. Non-expendable trust funds account for assets of which the principal may not be spent.

Agency Fund – The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity (primarily student activities).

Account Groups – Account groups are used to establish accounting control and accountability for the District's general fixed assets and long-term obligations. The following are the District's account groups:

General Fixed Assets – This group of accounts was established to account for all general fixed assets of the District.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basic Financial Statements – Fund Financial Statements (Continued)

General Long-Term Obligations – This group of accounts has been established to account for unmatured general long-term obligations and certain other liabilities of the District not expected to be liquidated through the use of available expendable financial resources.

D. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. The governmental-wide statement uses the economic resources measurement focus.

Accrual

Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after the year end. A one-year period is used for revenue recognition for all other governmental fund revenues. Those revenues prone to accrual are property taxes, federal aid, interest-revenue, and charges for services.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

State Foundation Revenue - For the fiscal year ended June 30, 2018, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. In previous years, the state utilized a district power equalizing approach. The Foundation is funded from state and local sources.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on 10% of the pupil membership count taken in February of 2017 and 90% taken in October of 2017.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. Modifications include:

Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.

E. Cash and Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and equivalent balances for individual funds are pooled unless maintained in segregated accounts.

F. Interfund Balances and Transfers

The current portion of lending/borrowing arrangements between funds are identified as "due to/from other funds". The non-current portion of outstanding balances between funds are reported as "advances to/from other funds". Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources.

Transfers represent a flow of assets without equivalent flows of assets in return or a requirement for repayment.

G. Inventories and Prepaid Items

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

H. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

Donated fixed assets are valued at their estimated fair market value on the date received.

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

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

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

The District has adopted a capitalization policy of \$2,000.

I. Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund statements and the government-wide statements (either governmental activities or business-type activities, as applicable). Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums and discounts. Issuance costs are reported as deferred charges.

In the governmental fund financial statements, bond premiums, discounts and issuance costs are recognized during the current period. The face amount of debt issued, and any premiums received are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. Compensated Absences

Amounts representing accumulated vacation and personal leave expected to be liquidated with expendable, available financial resources are reported as an expenditure and a fund liability of the government fund that will pay it.

K. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized as revenue when levied to the extent they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Property Taxes (Continued)

The District, along with certain other governmental units, is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2018, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund Mills</u>	
General Fund - Non-Homestead	18.0
Debt Retirement	2.65-3.05

L. Unemployment Insurance

The District reimburses the Unemployment Insurance Agency (UIA) for the actual amount of unemployment benefits disbursed by the UIA on behalf of the District. Billings received for amounts paid by the UIA through June 30 are accrued.

M. Fund Balance

The restricted fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Nonspendable fund balance represents the amount that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. Assigned fund balances represent amounts set aside by the governing body for specific purposes, but do not meet the definition of restricted or committed fund balance. Under the District's policy, amounts may be assigned by the Business Manager under the authorization of the Board of Education. The unassigned fund balances for governmental funds represent the amount available for budgeting future operations.

N. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budget is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - all governmental fund types.
2. Public hearings are conducted to obtain taxpayer comments.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Budgets (Continued)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget, or in excess of the amount appropriated. Any material expenditures in violation of the budgeting act are disclosed in the footnotes.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget, as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

The budget for the year ended June 30, 2018 was adopted on June 20, 2017 and formally amended on June 26, 2018.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

O. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

P. Pension:

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

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Other Post-Employment Benefits:

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

NOTE 2 - CASH AND INVESTMENTS

Deposits

The District's cash and equivalents, as reported in the Statement of Net Position, consisted of the following:

Petty cash	\$ 750
Checking accounts	102,892
Savings/money market accounts	<u>143,233</u>
TOTAL	<u>\$ 246,875</u>

Deposit Risk

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require, and the District does not have a policy for, deposit custodial credit risk. As of June 30, 2018, the District's cash and equivalents were fully insured.

Investments

The District's investments, as reported in the Statement of Net Position, consisted of the following:

Michigan Liquid Asset Fund (MILAF)	<u>\$ 170,693</u>
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Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 2 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2018, the District's investments were not exposed to credit risk due to them being fully invested in governmental securities.

Investments are recorded at fair market value, which is based on quoted market prices.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments are with the Michigan Liquid Asset Fund (MILAF) which consists of different funds including mutual funds with a high degree of liquidity. The District's investments are not subject to interest rate risk.

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables for the year ended June 30, 2018 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Debt service	\$ 98	General fund	\$ 21,787
Sinking fund	21,689	Food Service	<u>1</u>
General Fund	<u>1</u>		
Total	<u>\$ 21,788</u>	Total	<u>\$ 21,788</u>

Interfund transfers for the year ended June 30, 2018 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Debt service	\$ 89,755	General fund	<u>\$ 93,755</u>
Food service	<u>4,000</u>		
Total	<u>\$ 93,755</u>		



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018 follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<i>Assets not subject to depreciation:</i>				
Land	\$ 7,000	\$ -	\$ -	7,000
<i>Assets subject to depreciation:</i>				
Land improvements	353,602	8,951	-	362,553
Building	5,327,611	72,992	-	5,400,603
Equipment	807,363	2,252	(5,906)	803,709
Vehicles	598,906	150,216	(105,992)	643,130
TOTALS	7,094,482	\$ 234,411	\$ (111,898)	7,216,995
Accumulated Depreciation	(4,221,397)	\$ (123,460)	\$ 111,898	(4,232,959)
Net Capital Assets	<u>\$ 2,873,085</u>			<u>\$ 2,984,036</u>

Depreciation for the year ended June 30, 2018, amounted to \$123,460. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

NOTE 5 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2018, the following changes occurred in long-term obligations:

	Balance July 1, 2017	Additions	Repayments	Balance June 30, 2018	Amounts Due Within One Year
General obligation bonds	\$ 1,799,680	\$ -	\$ (233,665)	\$ 1,566,015	\$ 163,665
Loans payable	50,994	-	(12,361)	38,633	12,617
Early retirement incentives	-	39,998	-	39,998	13,332
Vested compensated absences	43,894	-	(11,660)	32,234	5,647
Net pension liability	5,056,900	-	(20,924)	5,035,976	-
Net OPEB liability	1,822,071		(94,626)	1,727,445	
TOTALS	\$ 8,773,539	\$ 39,998	\$ (278,610)	\$ 8,440,301	\$ 195,261

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 6 - BONDS AND NOTES PAYABLE

Long-term obligations at June 30, 2018 is comprised of the following amounts:

1.	2009 Building and Site Bonds due May 1, 2023, with interest at 2%. Principal payments of \$106,665 are set aside for a future balloon payment of \$1,705,000, due May 1, 2023. The present value of the outstanding balance is reflected in the financial statements.	\$ 745,015
2.	2010 Building and Site Bonds due in annual installments of \$45,000 to \$50,000 through May 1, 2027 with interest from 1.1% to 6.75%.	440,000
3.	2014 Energy Bond due in annual installments of \$11,000 to \$14,000 through October 1, 2021 with interest at 3.5%.	51,000
4.	2017 Bus Bond due in annual installments of \$65,000 to \$70,000 through May 1, 2023 with interest from 1.3% to 2.0%.	330,000
5.	2014 Bus Loan due in annual installments of \$12,127 to \$13,127 through July 15, 2020 with interest at 2.0%.	38,633
6.	Vested compensated absences.	32,234
7.	Early retirement incentive.	39,998
8.	Net OPEB liability	1,727,445
9.	Net pension liability.	<u>5,035,976</u>
TOTAL LONG-TERM OBLIGATIONS		<u>\$ 8,440,301</u>

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2018 are as follows:

Year Ended June 30	Bond Issues		Note Payable		Early Retirement & Compensated Absences	Net Pension & OPEB Liability	Total
	Principal	Interest	Principal	Interest			
2019	\$ 228,665	\$ 71,805	\$ 12,617	\$ 646	\$ 18,979	\$ -	\$ 332,712
2020	228,665	67,240	12,870	391	13,332	-	322,498
2021	234,665	62,568	13,146	131	13,334	-	323,844
2022	235,665	57,420	-	-	-	-	293,085
2023	438,355	52,400	-	-	26,587	-	517,342
2024-2028	200,000	33,500	-	-	-	6,763,421	6,996,921
TOTALS	\$ 1,566,015	\$ 344,933	\$ 38,633	\$ 1,168	\$ 72,232	\$ 6,763,421	\$ 8,786,402

Interest expense for the year ended June 30, 2018 was \$78,244.

NOTE 7 - NOTES PAYABLE

State Aid Anticipation Note due to Citizens State Bank, in the amount of \$150,000. The Note is secured by State Aid payments and is subject to an interest rate of 1.0% and matures October 23, 2018. The Note was used for operational costs.

During the year ended June 30, 2018, the following changes occurred in notes payable:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
State Aid Anticipation Note	<u>\$150,000</u>	<u>\$150,000</u>	<u>\$(150,000)</u>	<u>\$150,000</u>

NOTE 8 - COMPENSATED ABSENCES

At June 30, 2018 accumulated non-vested sick time amounted to \$25,480. Non-vested, unused sick time does not vest and so is not included in the general long-term debt account group.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 9 - FUND BALANCES

Portions of fund balances are restricted, nonspendable, or assigned and not available for general purposes other than fund usage as follows.

General – Nonspendable inventory	<u>\$24,627</u>
Debt Service – Restricted for debt service	<u>\$69,346</u>
Sinking Fund – Restricted for capital projects	<u>\$119,789</u>
Food Service – Restricted for food service	<u>\$27</u>
Nonspendable inventory	<u>\$4,419</u>

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (System or 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 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, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

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

Benefits Provided

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



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Benefits Provided (Continued)

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21-year period for the 2017 fiscal year.

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

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

Required contributions to the pension plan from the District were \$455,812 for the year ended September 30, 2017.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

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

At June 30, 2018, the District reported a liability of \$5,035,976 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.01943323 percent, which was a decrease of 0.00083557 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2018, the District recognized pension expense of \$449,874. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$43,766	\$24,710
Changes of Assumptions	551,731	-
Net difference between projected and actual earnings on pension plan investments	-	240,753
Changes in proportion and differences between Employer contributions and proportionate share of contributions	30,640	223,154
Employer contributions subsequent to the measurement date	399,019	-
Total	<u>\$1,025,156</u>	<u>\$488,617</u>

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

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

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year Ending September 30	Amount
2018	\$418,651
2019	\$114,038
2020	\$37,317
2021	(\$33,467)

Actuarial Assumptions

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

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Actuarial Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.5188 for non-university employers 1.1222 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

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

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

Rate of Return

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

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

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

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
\$6,560,202	\$5,035,976	\$3,752,675

** University employers provide non-hybrid plans only. For non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

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

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

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

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

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Benefits Provided (Continued)

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

Contributions

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

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

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

OPEB Contribution Rates			
Benefit Structure	Member	Employer	
		Universities	Non-Universities
Premium Subsidy	3.00%	7.36%	5.91%
Personal Healthcare Fund (PHF)	0.00%	6.98%	5.69%

Required contributions to the OPEB plan from the District were \$151,871 for the year ended September 30, 2017.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

At June 30, 2018, the District reported a liability of \$1,727,445 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.01950709 percent, which was a decrease of 5.4778 percent from its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, the District recognized OPEB expense of \$115,746. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$-	\$18,392
Changes of Assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	\$40,008
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$902	-
Employer contributions subsequent to the measurement date	\$88,845	-
Total	\$89,747	\$58,400

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



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)

2018	\$74,933
2019	(\$13,912)
2020	(\$13,912)
2021	(\$13,912)
2022	(\$1,850)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Actuarial Assumptions (Continued)

Mortality:

RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions:

Opt Out Assumptions

21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan

Survivor Coverage

80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death

Coverage Election at Retirement

75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the table on the following page:

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

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

Rate of Return

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



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$2,023,337	\$1,727,445	\$1,476,325

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

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

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$1,462,913	\$1,727,445	\$2,027,802

OPEB Plan Fiduciary Net Position

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



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participated in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 13 - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 results could differ from those estimates.

NOTE 14 - SIGNIFICANT ESTIMATES

Included in Note 10 is a summary of the employee retirement plan provisions and actuarial assumptions. The actuarial assumptions are very critical to the computation of actuarial determined liabilities of the plan. If the assumptions differ from actual results annual contributions to the defined benefit plan can substantially change.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the District is required to report its' share of the MPSERS other post-employment benefits liability described in Note 11. A prior period adjustment was made to establish this balance.

Beginning Net Position (as previously reported)	\$ (3,243,119)
Adjustment for GASB 75 Implementation	<u>(1,690,764)</u>
Beginning Net Position as Corrected	<u>\$ (4,933,883)</u>

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(Continued)

NOTE 16 - SINKING FUND COMPLIANCE

The Capital Projects Fund includes activities funded with sinking fund tax dollars issued after May 1, 1994. For this capital project, the District has complied with the applicable provisions of §1351a of the Revised School Code.

REQUIRED SUPPLEMENTARY INFORMATION

ONTONAGON AREA SCHOOL DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual (Budgetary Basis) (See Note 1)
	Original	Final	
REVENUES:			
Local sources	\$ 1,833,010	\$ 1,836,890	\$ 1,901,907
State sources	1,023,470	1,033,010	1,026,615
Federal sources	141,990	254,315	184,061
TOTAL REVENUES	2,998,470	3,124,215	3,112,583
EXPENDITURES:			
Instruction	1,667,745	1,652,145	1,610,751
Supporting services	1,201,540	1,322,710	1,300,772
School service activities	109,705	119,040	119,382
TOTAL EXPENDITURES	2,978,990	3,093,895	3,030,905
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,480	30,320	81,678
OTHER FINANCING SOURCES (USES):			
Payments received from other governmental units	87,045	38,535	38,756
Other sources	26,150	63,400	35,411
Other (uses)	(16,320)	(53,700)	(15,380)
Transfers out	(114,950)	(93,755)	(93,755)
TOTAL OTHER FINANCING SOURCES (USES)	(18,075)	(45,520)	(34,968)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,405	(15,200)	46,710
FUND BALANCE, JULY 1	34,577	34,577	34,577
FUND BALANCE, JUNE 30	\$ 35,982	\$ 19,377	\$ 81,287

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



ONTONAGON AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

LAST 10 FISCAL YEARS (Amounts were determined as of 9/30 of each fiscal year)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)							0.019433230%	0.020268800%	0.02004311%	0.02072%
B. Reporting unit's proportionate share of net pension liability							\$ 5,035,976	\$ 5,056,900	\$ 4,895,535	\$ 4,564,134
C. Reporting unit's covered-employee payroll							\$ 1,588,139	\$ 1,719,854	\$ 1,677,879	\$ 1,780,284
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)							31.53587%	34.01005%	34.27366%	39.00595%
E. Plan fiduciary net position as a percentage of total pension liability							64.21%	63.27%	63.17%	66.20%

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



ONTONAGON AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN**

LAST 10 FISCAL YEARS (Amounts were determined as of 6/30 of each fiscal year)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions							\$ 464,063	\$ 456,991	\$ 458,439	\$ 520,024
B. Contributions in relation to statutorily required contributions*							\$ 464,063	\$ 456,991	\$ 458,439	\$ 520,024
C. Contribution deficiency (excess)							\$ -	\$ -	\$ -	\$ -
D. Reporting unit's covered-employee payroll							\$ 1,511,196	\$ 1,600,937	\$ 1,671,970	\$ 1,691,126
E. Contributions as a percentage of covered-employee payroll							30.70833%	28.54522%	27.41909%	30.75016%

* Contributions in relation to statutorily required contributions are the contributions an employer actually made to the System, as distinct from the statutorily required contributions.

ONTONAGON AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (Amounts were determined as of 9/30 of each fiscal year)

	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
A. Reporting unit's proportion of net OPEB liability (%)										0.01950709%
B. Reporting unit's proportionate share of net OPEB liability										\$ 1,727,445
C. Reporting unit's covered-employee payroll										\$ 1,588,139
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)										91.93572%
E. Plan fiduciary net position as a percentage of total OPEB liability										36.39%

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

ONTONAGON AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

LAST 10 FISCAL YEARS (Amounts were determined as of 6/30 of each fiscal year)

	<u>2017</u>	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
A. Statutorily required OPEB contributions										\$ 109,140
B. OPEB contributions in relation to statutorily required contributions*										\$ 109,140
C. Contribution deficiency (excess)										\$ -
D. Reporting unit's covered-employee payroll										\$ 1,511,196
E. OPEB contributions as a percentage of covered-employee payroll										7.22209%

* Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plans, as distinct from the statutorily required contributions.

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

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

Board of Education
Ontonagon Area School District
Ontonagon, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and each fiduciary fund type information of the Ontonagon Area School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Ontonagon Area School District's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ontonagon Area 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*.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)**

Purpose of this Report

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

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

October 29, 2018



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Iron Mountain Office:
Shane M. Ellison, CPA, PC

Lynn M. Mott, MSA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

October 29, 2018

To the Board of Education
Ontonagon Area School District

We have audited the financial statements of the governmental activities, each major fund, and the internal service fund of the Ontonagon Area School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ontonagon Area School District are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no major sensitive accounting estimates.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the MD&A, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

This information is intended solely for the use of the Board of Education and management of the Ontonagon Area School District and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, TACKMAN & COMPANY, PLC

By: Shane M. Ellison, CPA, PC

By: 
Shane M. Ellison, President