



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

ONAWAY AREA COMMUNITY SCHOOLS
CHEBOYGAN AND PRESQUE ISLE COUNTIES, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2020

INDEX

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET POSITION	9
STATEMENT OF ACTIVITIES	10
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	11
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES	12
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	13
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	14
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS	15
NOTES TO FINANCIAL STATEMENTS	16 - 45
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	46
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS	47
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY	48
SCHEDULE OF THE SCHOOL DISTRICT'S OPEB CONTRIBUTIONS	49
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	50
<u>OTHER INFORMATION</u>	
<u>COMBINING STATEMENTS - NONMAJOR FUNDS</u>	
COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	51
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	52
<u>INDIVIDUAL FUND SCHEDULES</u>	
GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	53
GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	54 - 58
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	59 - 61
<u>DISTRICT PREPARED DOCUMENTS</u>	
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - NOT REQUIRED IN CURRENT YEAR	
CORRECTIVE ACTION PLAN	



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

September 25, 2020

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Onaway Area Community Schools, Cheboygan and Presque Isle Counties, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the index.

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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Onaway Area Community Schools, Cheboygan and Presque Isle Counties, Michigan, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and required pension and other postemployment benefit (OPEB) schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Onaway Area Community Schools' basic financial statements. The combining nonmajor fund financial statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 25, 2020, on our consideration of Onaway Area Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Onaway Area Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Onaway Area Community Schools' internal control over financial reporting and compliance.

Stephenson & Company, P.C.



Onaway Area Community School



4549 M-33 Hwy. Onaway, MI 49765
Ph: (989) 733-2700 • Fax: (989) 733-8612
Rod Fullerton • rfullerton@oacsd.com

Working together to prepare students for life.

Go Cardinals!!

As management of Onaway Area Community Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$7,298,996 (net position). Of this amount, \$(11,650,995) (unrestricted net position) is the result of the District's ongoing obligations to taxpayers, employees, students, and creditors.

The District's total Net Position increased by \$279,001 in the current year. Various operational expenditures related to the operation of the building itself were reduced during the last quarter of the fiscal year as result of the COVID-19 pandemic, while revenues were fairly consistent with the prior year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,171,640, a decrease of \$143,034 from the prior year. Of this amount, \$286,086 (unassigned fund balance) is available for spending at the District's discretion.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, 2016 Construction Fund, Debt Service Fund, and Food Service Fund) was \$1,171,640 or 16% of the total expenditures of these operating funds.

The General Fund did not experience a significant change in fund balance.

The 2016 Construction Fund fund balance decreased by \$124,156 in the current year. There were capital projects costing \$129,708 in the current year with no significant current year revenue.

The Other Governmental Funds experienced a \$37,673 decrease in combined fund balance. Activity was generally consistent with the prior year, except that the District transferred indirect costs of \$20,000 from the Food Service Fund to the General Fund in the current year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Onaway Area Community Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both the government-wide financial statements distinguish functions of the Onaway Area Community School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, and food services.

The government-wide financial statements can be found in the Statement of Net Position and the Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund and the 2016 Construction Fund, which are both considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found in the Statement of Fiduciary Assets and Liabilities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented in Notes to Financial Statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in this Management's Discussion and Analysis, Required Pension and OPEB Schedules, and the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining nonmajor fund financial statements can be found in the Combining Balance Sheet – Other Governmental Funds and the Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Other Governmental Funds.

The individual fund schedules presenting the General Fund – Details of Revenue Compared to Budget and the General Fund – Details of Expenditures Compared to Budget are immediately following the combined nonmajor fund financial statements referred to in the preceding paragraph.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School District's Net Position was \$(7,298,996) at June 30, 2020. Of this amount, \$(11,650,995) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations.

Our analysis below focuses on the net position (Table 1) and the change in net position (Table 2) of the School District's governmental activities.

TABLE 1
NET POSITION

	<u>Governmental Activities</u>	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Current Assets	\$ 1,903,129	\$ 2,022,113
Noncurrent Assets:		
Capital Assets - Net	<u>6,553,618</u>	<u>6,822,336</u>
Total Assets	<u>8,456,747</u>	<u>8,844,449</u>
Deferred Outflows of Resources	<u>3,828,797</u>	<u>3,157,074</u>

Current Liabilities	\$ 742,364	\$ 718,793
Noncurrent Liabilities	<u>16,694,513</u>	<u>16,830,653</u>
Total Liabilities	<u>17,436,877</u>	<u>17,549,446</u>
Deferred Inflows of Resources	<u>2,147,663</u>	<u>2,030,074</u>
<u>Net Position</u> (Restated)		
Net Investment in Capital Assets	3,921,628	4,139,369
Restricted	430,371	662,203
Unrestricted (Deficit)	<u>(11,650,995)</u>	<u>(12,379,569)</u>
Total Net Position	<u>\$ (7,298,996)</u>	<u>\$ (7,577,997)</u>

The \$(11,650,995) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (net pension liability for example); we would be short by \$(11,650,995). This shortfall is a direct result of the implementation of GASB 68 and GASB 75 in prior years. See Note 10 and Note 11 of this report.

TABLE 2
CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>Year Ended</u> <u>June 30, 2020</u>	<u>Year Ended</u> <u>June 30, 2019</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 86,893	\$ 201,368
Operating Grants and Contributions	1,657,448	1,238,263
Capital Grants and Contributions	0	0
General Revenues:		
Current Property Taxes	3,178,652	3,182,413
State School Aid – Unrestricted	2,067,040	2,153,499
Investment Earnings	11,966	32,939
Gain (Loss) on Disposal of Capital Assets	4,500	0
Miscellaneous	<u>44,227</u>	<u>22,709</u>
Total Revenues	<u>7,050,726</u>	<u>6,831,191</u>
Functions/Program Expenses:		
Instruction	\$ 4,295,396	\$ 4,370,722
Support Services	1,825,308	2,016,814
Community Services	74,006	91,932
Athletics	141,460	127,357
Food Services	357,209	314,749
Interest on Long-Term Debt	<u>78,346</u>	<u>91,546</u>
Total Functions/Program Expenses	<u>6,771,725</u>	<u>7,013,120</u>
Change in Net Position	279,001	(181,929)
Beginning Net Position (Restated)	<u>(7,577,997)</u>	<u>(7,396,068)</u>
Ending Net Position (Restated)	<u>\$ (7,298,996)</u>	<u>\$ (7,577,997)</u>

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$6,771,725. Some of the cost was paid by those who benefited from the programs (\$86,893), by other governments and organizations who subsidized certain programs with grants and contributions (\$1,657,448), by unrestricted state school aid (\$2,067,040), by investment earnings (\$11,966), gain on disposal of capital assets (\$4,500), and by miscellaneous sources (\$44,227). Local taxpayers (\$3,178,652) are also a significant source of funding.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The budgeted funds are the General Fund and the Food Service Fund.

During the year ended June 30, 2020, the District amended the budgets of these governmental funds as necessary to account for changes in anticipated revenues and expenditures.

General Fund

The general fund actual revenue was \$6,133,239. The amount is below the original budget estimate of \$6,197,159 and above the final amended budget of \$5,816,993. The variance between the actual revenues, the original budget, and the final budget was primarily due to the District anticipating a greater cut to state aid funding as a result of the COVID-19 pandemic when they amended their budget than actually ended up occurring.

The actual expenditures of the general fund were \$6,138,944, which is below the original budget estimate of \$6,394,904 and above the final budget estimate of \$6,105,551. The variance between the original budget and the final budget (which was similar to the actual expenditures) was mostly the result of lower employee salary and benefit expenditures than initially anticipated.

The General Fund had total revenues of \$6,133,239, total expenditures of \$6,138,944, and other financing sources of \$24,500 with an ending fund balance of \$657,874.

CAPITAL ASSET AND LONG-TERM LIABILITY ADMINISTRATION

Capital Assets

At the end of fiscal year 2020, the District had capital assets with original acquisition costs totaling \$11,041,814, consisting of land and buildings, furniture and equipment, vehicles and buses, and software. Of this amount, \$4,488,196 in depreciation has been taken over the years. The District's capital assets currently have a net book value of \$6,553,618.

During the year ended June 30, 2020, the District's capital asset additions consisted of:

Sidewalks & Heating / Vent Upgrades	\$ 99,688
Window Blinds Project	<u>21,600</u>
Total Additions	<u>\$ 121,288</u>

The District disposed of three buses, all of which were fully depreciated, at a gain of \$4,500.

Additional information on the District's capital assets can be found in Notes to Financial Statements, Note 5 of this report.

Long-Term Debt

At June 30, 2020, long-term debt amounted to \$2,631,990. Such debt includes *Bonds Payable and Installment Purchases Payable*.

Additional information on the District's long-term debt can be found in Notes to Financial Statements, Note 7 of this report.

Net Pension Liability

At June 30, 2020, the District's Net Pension Liability amounted to \$11,374,697. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 10 of this report.

Net OPEB Liability

At June 30, 2020, the District's Net OPEB Liability amounted to \$2,402,464. This constitutes their unfunded OPEB obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net OPEB Liability can be found in Note 11 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The 2019-2020 year was one of the strangest years to provide a financial forecast. Budgetary information was changing often and at times looked very bleak. While trying to keep ahead of all of the potential economic downturn, it did appear as if the District approved forecasts that were more negative than they needed to be, but this was simply the information that the District had at that moment. As it stands now, the District ended the fiscal year in a much better position than what many forecasts had predicted in May of 2020.

The District continues to work hard to keep expenditures down and to maintain revenue levels that are within their control. The 2020/2021 expectations may be adversely affected by the recent COVID-19 pandemic; however, those effects are not known at this time.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Rod Fullerton
Superintendent / Business Manager
Onaway Area Community Schools
4549 M-33
Onaway, MI 49765
Office Telephone (989) 733-4956

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

STATEMENT OF NET POSITION
June 30, 2020

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,384,761
Receivables:	
Due From Other Governmental Units	494,131
Inventory:	
Supplies	7,837
Prepaid Items	16,400
Noncurrent Assets:	
Capital Assets Not Being Depreciated	20,300
Capital Assets, Net of Accumulated Depreciation	<u>6,533,318</u>
 Total Assets	 <u>8,456,747</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability	3,100,128
Deferred Amount on OPEB Expense Related to Net OPEB Liability	<u>728,669</u>
Total Deferred Outflows of Resources	<u>3,828,797</u>
<u>Liabilities</u>	
Accounts Payable	8,589
Interest Payable	10,875
Payroll Deductions and Withholdings	22,313
Accrued Expenses	346,804
Salaries Payable	348,028
Unearned Revenue - At Risk	5,755
Long-Term Liabilities:	
Due Within One Year	513,465
Due in More Than One Year	2,403,887
Net Pension Liability	11,374,697
Net OPEB Liability	<u>2,402,464</u>
 Total Liabilities	 <u>17,436,877</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability	1,072,735
Deferred Amount on Net OPEB Liability	<u>1,074,928</u>
Total Deferred Inflows of Resources	<u>2,147,663</u>
<u>Net Position</u>	
Net Investment in Capital Assets	3,921,628
Restricted For:	
Debt Retirement	109,839
Capital Projects	320,532
Unrestricted (Deficit)	<u>(11,650,995)</u>
 Total Net Position	 <u>\$ (7,298,996)</u>

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 4,295,396	\$ 1,575	\$ 940,090	\$ 0	\$ (3,353,731)
Support Services	1,825,308	0	408,740	0	(1,416,568)
Community Services	74,006	23,766	20,787	0	(29,453)
Athletics	141,460	16,182	3,600	0	(121,678)
Food Services	357,209	45,370	284,231	0	(27,608)
Interest on Long-Term Debt	<u>78,346</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(78,346)</u>
 Total	 <u>\$ 6,771,725</u>	 <u>\$ 86,893</u>	 <u>\$ 1,657,448</u>	 <u>\$ 0</u>	 <u>(5,027,384)</u>
General Revenues:					
Property Taxes, Levied for General Purposes					2,623,617
Property Taxes, Levied for Debt Purposes					555,035
State School Aid - Unrestricted					2,067,040
Investment Earnings					11,966
Gain (Loss) on Disposal of Capital Assets					4,500
Miscellaneous					<u>44,227</u>
Total General Revenues					<u>5,306,385</u>
 Change in Net Position					 279,001
 Net Position - Beginning (Restated)					 <u>(7,577,997)</u>
 Net Position - Ending					 <u>\$ (7,298,996)</u>

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2020

	<u>General Fund</u>	<u>Capital Projects Fund 2016 Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 921,009	\$ 320,532	\$ 143,220	\$ 1,384,761
Receivables:				
Due From Other Governmental Units	492,581	0	1,550	494,131
Due from Other Funds	0	0	53,031	53,031
Inventory:				
Supplies	0	0	7,837	7,837
Prepaid Items	<u>16,400</u>	<u>0</u>	<u>0</u>	<u>16,400</u>
 Total Assets	 <u>\$ 1,429,990</u>	 <u>\$ 320,532</u>	 <u>\$ 205,638</u>	 <u>\$ 1,956,160</u>
<u>Liabilities</u>				
Accounts Payable	\$ 7,517	\$ 0	\$ 1,072	\$ 8,589
Due to Other Funds	53,031	0	0	53,031
Payroll Deductions and Withholdings	20,183	0	2,130	22,313
Accrued Expenditures	343,704	0	3,100	346,804
Salaries Payable	341,926	0	6,102	348,028
Unearned Revenue - At Risk	<u>5,755</u>	<u>0</u>	<u>0</u>	<u>5,755</u>
Total Liabilities	<u>772,116</u>	<u>0</u>	<u>12,404</u>	<u>784,520</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	0	0	7,837	7,837
Prepaid Items	16,400	0	0	16,400
Restricted For:				
Debt Retirement	0	0	109,839	109,839
Capital Projects	0	320,532	0	320,532
Assigned To:				
Food Service	0	0	75,558	75,558
Next Year's Budgeted Expenditures	355,388	0	0	355,388
Unassigned	<u>286,086</u>	<u>0</u>	<u>0</u>	<u>286,086</u>
Total Fund Equity	<u>657,874</u>	<u>320,532</u>	<u>193,234</u>	<u>1,171,640</u>
 Total Liabilities and Fund Equity	 <u>\$ 1,429,990</u>	 <u>\$ 320,532</u>	 <u>\$ 205,638</u>	 <u>\$ 1,956,160</u>

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2020

Total Governmental Fund Balances		\$ 1,171,640
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:</p>		
Capital Asset Cost	\$ 11,041,814	
Capital Asset Accumulated Depreciation	<u>(4,488,196)</u>	6,553,618
Accrued interest on long-term liabilities		(10,875)
<p>Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	3,100,128	
Deferred inflows of resources resulting from net pension liability	(1,072,735)	
Deferred outflows of resources from OPEB expenses subsequent to the measurement date of net OPEB liability	728,669	
Deferred inflows of resources resulting from net OPEB liability	<u>(1,074,928)</u>	1,681,134
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Bonds Payable	(2,575,000)	
Compensated Absences Payable	(285,362)	
Installment Purchases Payable	(56,990)	
Net Pension Liability	(11,374,697)	
Net OPEB Liability	<u>(2,402,464)</u>	<u>(16,694,513)</u>
Total Net Position - Governmental Activities		\$ <u><u>(7,298,996)</u></u>

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	<u>General Fund</u>	<u>Capital Projects Fund 2016 Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local Sources	\$ 2,725,644	\$ 5,552	\$ 601,429	\$ 3,332,625
State Sources	2,921,728	0	8,520	2,930,248
Federal Sources	204,959	0	275,711	480,670
Interdistrict Sources	<u>280,908</u>	<u>0</u>	<u>0</u>	<u>280,908</u>
Total Revenue	<u>6,133,239</u>	<u>5,552</u>	<u>885,660</u>	<u>7,024,451</u>
<u>Expenditures</u>				
Current:				
Instruction	4,131,937	0	0	4,131,937
Support Services	1,735,684	0	0	1,735,684
Community Services	74,006	0	0	74,006
Food Services	0	0	338,911	338,911
Athletics	137,989	0	0	137,989
Capital Outlay	27,999	129,708	687	158,394
Debt Service:				
Principal Retirement	10,665	0	485,000	495,665
Interest and Fees on Long-Term Debt	<u>20,664</u>	<u>0</u>	<u>78,735</u>	<u>99,399</u>
Total Expenditures	<u>6,138,944</u>	<u>129,708</u>	<u>903,333</u>	<u>7,171,985</u>
Excess of Revenue Over (Under)				
Expenditures	(5,705)	(124,156)	(17,673)	(147,534)
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	4,500	0	0	4,500
Operating Transfers In	20,000	0	0	20,000
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(20,000)</u>	<u>(20,000)</u>
Total Other Financing Sources (Uses)	<u>24,500</u>	<u>0</u>	<u>(20,000)</u>	<u>4,500</u>
Net Change in Fund Balances	18,795	(124,156)	(37,673)	(143,034)
Fund Balances - Beginning of Year (Restated)	<u>639,079</u>	<u>444,688</u>	<u>230,907</u>	<u>1,314,674</u>
Fund Balances - End of Year	<u>\$ 657,874</u>	<u>\$ 320,532</u>	<u>\$ 193,234</u>	<u>\$ 1,171,640</u>

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Total Net Change in Fund Balances - Governmental Funds \$ (143,034)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current Year Depreciation Expense	\$ (390,006)	
Capital Outlays Reported in the Governmental Funds	<u>121,288</u>	(268,718)

Governmental funds report district pension and OPEB contributions as expenditures. However, in the statement of activities, the cost of pension or OPEB benefits earned, net of employee contributions, is reported as pension or OPEB expense. The following amounts represent the current year net changes:

Net Pension Liability	(769,935)	
Net OPEB Liability	403,687	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	240,227	
Deferred Inflows on Net Pension Liability	307,667	
Actual OPEB Contributions and the Cost of Benefits Earned, net of Employee Contributions	431,496	
Deferred Amount on Net OPEB Liability	<u>(425,256)</u>	187,886

Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.

Bonds Payable	485,000	
Installment Purchases Payable	<u>10,665</u>	495,665

Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effects of the treatment of these activities are as follows:

Interest	479	
Compensated Absences	<u>6,723</u>	<u>7,202</u>

Change in Net Position of Governmental Activities \$ 279,001

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2020

	<u>Trust and Agency Fund</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ <u><u>242,539</u></u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u><u>242,539</u></u>

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Onaway Area Community Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. Onaway Area Community Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Onaway Area Community Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

2016 Construction Fund – The 2016 Construction Fund accounts for bond proceeds used to provide capital additions for the School District.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the accumulation of resources for, and the payment of debt.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue and capital project funds and the restrictions on their net position use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

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

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2020, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Receivables

Receivables generally consist of grants, state aid, and other. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at June 30, 2020 was \$0.

G. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

I. Inventory – Supplies

Inventory consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure/expense in the governmental and government wide financial statements when used.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 10 years
Vehicles and Buses	5 - 10 years
Software	3 - 5 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net position.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2020.

N. Net Pension Liability

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

O. Postemployment Benefits Other Than Pensions

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 System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The School District reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the School District's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the School District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The School District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

R. Property Taxes

The School District levies its property taxes on July 1, and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

S. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2020, the foundation allowance was based on the average of pupil membership counts taken in October of 2019 and February of 2019.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Foundation Revenue (Continued)

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified and commercial property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2019 - August, 2020. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

T. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

U. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2020.

W. Economic Dependency

The School District received approximately 42% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

X. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Y. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Budgetary Policies and Data (Continued)

Onaway Area Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

Z. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2020, the School District implemented GASB Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements".

In light of the COVID-19 pandemic, the Governmental Accounting Standards Board (GASB) released GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance", which postponed the effective dates of a variety of pronouncements for either one year or eighteen months as a means to provide temporary relief to governments and other stakeholders. Of particular note for the School District was GASB Statement No. 84, "Fiduciary Activities", which was due to be implemented in the current year, but the implementation of which was delayed by the School District in accordance with GASB Statement No. 95.

For 2022, the School District will be required to implement GASB Statement No. 87, "Leases". The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents	\$ <u>1,384,761</u>	\$ <u>242,539</u>	\$ <u>1,627,300</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

		<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$	922,980
Investments in Pooled Funds		704,120
Petty Cash and Cash on Hand		<u>200</u>
Total	\$	<u><u>1,627,300</u></u>

As of June 30, 2020, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u><u>704,120</u></u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2020, the School District's investment in the Cadre Consulting Service, Inc. managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2020, \$434,783 of the School District's bank balance of \$934,783 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments (Continued)

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District’s Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District is not authorized to invest in investments which have this type of risk.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2020 were as follows:

	<u>Due from</u>
<u>Due to</u>	<u>General Fund</u>
Non-major Governmental Funds	\$ <u>53,031</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 20,300	\$ 0	\$ 0	\$ 20,300
Capital Assets Being Depreciated:				
Buildings and Improvements	9,725,332	99,688	0	9,825,020
Furniture, Fixtures and Equipment	337,490	21,600	0	359,090
Vehicles and Buses	985,507	0	(148,103)	837,404
Subtotal	11,048,329	121,288	(148,103)	11,021,514
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,545,636)	(256,178)	0	(3,801,814)
Furniture, Fixtures and Equipment	(222,659)	(40,233)	0	(262,892)
Vehicles and Buses	(477,998)	(93,595)	148,103	(423,490)
Subtotal	(4,246,293)	(390,006)	148,103	(4,488,196)
Capital Assets Being Depreciated	6,802,036	(268,718)	0	6,533,318
Governmental Activities Total	6,822,336	(268,718)	0	6,553,618
Capital Assets - Net of Depreciation	\$ 6,822,336	\$ (268,718)	\$ 0	\$ 6,553,618

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities

Instruction	\$ 250,459
Support Services	105,398
Community Services	4,668
Athletics	8,601
Food Services	<u>20,880</u>
	<u>\$ 390,006</u>

NOTE 6 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The following is a summary of the short-term financing:

	<u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
State Aid Anticipation Note Payable	\$ <u>0</u>	\$ <u>1,350,000</u>	\$ <u>(1,350,000)</u>	\$ <u>0</u>

The State Aid Anticipation Note was acquired to help cover School District operations for fiscal year 2020.

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt activity for the fiscal year ended June 30, 2020 was as follows:

A. Bonds Payable

2018 Building and Site Bonds	\$ 1,375,000
2016 Building and Site Bonds	<u>1,200,000</u>
Total Bonds Payable	<u>\$ 2,575,000</u>

B. Installment Purchases Payable

2011 Boiler Installment Purchase Agreement	\$ 45,990
2008 Truck Installment Purchase Agreement	<u>11,000</u>
Total Installment Purchases Payable	<u>\$ 56,990</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

The annual principal and interest requirements for long-term debt outstanding for the years after June 30, 2020 are as follows:

Direct Borrowing

Bonds Payable	Government Activities		
	Principal	Interest	Total
2021	\$ 500,000	\$ 65,250	\$ 565,250
2022	510,000	53,250	563,250
2023	525,000	40,950	565,950
2024	535,000	28,200	563,200
2025	250,000	15,150	265,150
2026	<u>255,000</u>	<u>7,650</u>	<u>262,650</u>
Totals	<u>\$ 2,575,000</u>	<u>\$ 210,450</u>	<u>\$ 2,785,450</u>

Installment Purchases Payable	Government Activities		
	Principal	Interest	Total
2021	\$ 10,665	\$ 1,691	\$ 12,356
2022	11,665	1,356	13,021
2023	11,665	977	12,642
2024	7,665	598	8,263
2025	7,665	399	8,064
2026	<u>7,665</u>	<u>199</u>	<u>7,864</u>
Totals	<u>\$ 56,990</u>	<u>\$ 5,220</u>	<u>\$ 62,210</u>

C. Detailed Long-Term Debt Disclosures

Direct Borrowing

2018 Building and Site Bonds

\$1,735,000 General Obligation Unlimited Tax Bonds, Series II, dated May 22, 2018 for the purpose of funding building and site improvements. The bonds bear interest at 3.00%, with interest payments due semiannually, while principal installments are due annually through fiscal year 2026. In the event of a failure of the District to comply with any provision of the agreement, any bondholder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under the bond agreement. The sole remedy under the agreement in the event of any failure of the District to comply with the agreement shall be an action to compel performance.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

C. Detailed Long-Term Debt Disclosures (Continued)

2016 Building and Site Bonds

\$1,850,000 General Obligation Unlimited Tax Bonds, Series I, dated August 4, 2016 for the purpose of funding building and site improvements. The bonds bear interest at 2.00%, with interest payments due semiannually, while principal installments are due annually through fiscal year 2024. In the event of a failure of the District to comply with any provision of the agreement, any bondholder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under the bond agreement. The sole remedy under the agreement in the event of any failure of the District to comply with the agreement shall be an action to compel performance.

2011 Boiler Installment Purchase Agreement

On August 3, 2011, the District entered into an installment purchase agreement with JP Heating of Northern Michigan in the amount of \$114,976 for the purchase of a natural gas boiler, which was subsequently assigned to Huron National Bank immediately following the purchase. The boiler has been recorded as a capital asset at its purchase price. This note is repayable in fifteen annual installments of \$7,665 including interest at a rate of 2.60% on the unpaid balance, and may not be prepaid in whole or in part prior to maturity. The District shall include in its budget and pay each year, until the agreement is paid in full, such sums necessary each year to make the requirement payments when due. Upon the occurrence of an event of default, all or part of the unpaid balance of the amount financed, together with accrued interest shall, at the option of the bank, become immediately due and payable without notice or demand.

2008 Truck Installment Purchase Agreement

On July 9, 2008, the District entered into an installment purchase agreement with Diesel Truck Sales, Inc. in the amount of \$42,000 for the purchase of a Sterling plow truck, which was subsequently assigned to the United States Department of Agriculture, Rural Development immediately following the purchase. The truck has been recorded as a capital asset at its purchase price. This note is repayable in annual installments ranging from \$3,000 to \$4,000 including interest at a rate of 4.50% on the unpaid balance. Principal payments may be prepaid by the District at any time. The District shall include in its budget during the term of the agreement an amount sufficient to pay, when due, the principal of and interest coming due under the agreement. The District pledged to levy ad valorem taxes on all taxable property in an amount which, together with other funds available for such purpose, shall be sufficient for the principal and interest payments. Should the District fail to make principal and/or interest payments at the specified times or materially breach any representation or warranty under the agreement, the assignee may declare all of the unpaid amounts of principal and accrued interest to be immediately due and payable or take whatever action at law or in equity that may appear necessary or desirable to enforce its rights under the agreement.

D. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate a limited amount of sick pay days. The amount of accumulated sick pay liability, recorded in the government-wide statements, for the School District was \$285,362 at June 30, 2020, of which \$2,800 was the estimated current portion.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2020:

<u>Governmental Activities</u>	<u>Balance July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>	<u>Amount Due in One Year</u>
Direct Borrowing:					
Bonds Payable	\$ 3,060,000	\$ 0	\$ (485,000)	\$ 2,575,000	\$ 500,000
Installment Purchases Payable	67,655	0	(10,665)	56,990	10,665
Other Debt:					
Compensated Absences	<u>292,085</u>	<u>0</u>	<u>(6,723)*</u>	<u>285,362</u>	<u>2,800</u>
Total Long-Term Liabilities	<u>\$ 3,419,740</u>	<u>\$ 0</u>	<u>\$ (502,388)</u>	<u>\$ 2,917,352</u>	<u>\$ 513,465</u>

*Represents net of additions and retirements for the year.

The interest expense on long-term obligations for the year was \$78,346.

Compensated absences for the governmental funds are generally liquidated by the General and Food Service funds.

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2020, the following transfers were made:

<u>Transfer to</u>	<u>Transfer from</u>
	Non-major Governmental Funds
General Fund	<u>\$ 20,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget of the School District for the general fund was adopted at the functional level, and the approved budget for the special revenue funds was adopted at the activity level.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS (CONTINUED)

During the year ended June 30, 2020, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Community Services	\$ 1,000	\$ 74,006	\$ 73,006

NOTE 10 - DEFINED BENEFIT PLAN

General Information About the Michigan Public School Employees' Retirement System (MPSERS) Pension 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 on the ORS website at www.michigan.gov/orsschools.

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 are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB 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.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Contributions (Continued)

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, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2019.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0	18.25
Pension Plus	3.0 - 6.4	16.46
Pension Plus 2	6.2	19.59
Defined Contribution	0.0	13.39

Required contributions to the pension plan from the School District were \$912,452 for the year ended September 30, 2019.

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

At June 30, 2020, the School District reported a liability of \$11,374,697 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The School District's proportionate share 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, 2019, the School District's proportionate share percent was 0.03435%, which was a decrease of 0.00093% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$1,635,767. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,985	\$ 47,431
Change of assumptions	2,227,174	0
Net difference between projected and actual earnings on pension plan investments	0	364,540
Changes in proportion and differences between School District contributions and proportionate share of contributions	1,743	294,050
School District contributions subsequent to the measurement date	820,226	0
Total	\$ 3,100,128	\$ 706,021

In addition to the deferred inflows of resources noted above, the District also has \$366,714 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$453,512 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Deferred (Inflows) and Deferred Outflows of Resources by Year
 (To Be Recognized in Future Pension Expenses)**

	Amount
2020	\$ 1,069,711
2021	506,616
2022	324,813
2023	126,253
	\$ 2,027,393

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.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- λ Valuation Date: September 30, 2018
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 2.75%
- λ Investment Rate of Return:
 - MIP and Basic Plans: 6.80%
 - Pension Plus Plan: 6.80%
 - Pension Plus 2 Plan: 6.00%
- λ Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- λ Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

Mortality: For retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For active members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2019 is based on the results of an actuarial valuation date of September 30, 2018, 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: 4.4977
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Long-Term Expected Rate of 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, 2019, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short-Term Investment Pools	2.0	0.8
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). This discount rate was based on the long term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 6.80% (6.80% for the Pension Plus Plan, 6.0% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)

1% Decrease 5.8% / 5.8% / 5.0%	Current Single Discount Rate Assumption 6.8% / 6.8% / 6.0%	1% Increase 7.8% / 7.8% / 7.0%
\$ 14,787,834	\$ 11,374,697	\$ 8,545,089

* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.

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

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

Payables to the Michigan Public School Employees' Retirement System (MPSERS)

At June 30, 2020, there were reported payables to MPSERS of \$234,997, which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information About the Michigan Public School Employees' Retirement System (MPSERS) OPEB 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 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.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

General Information about the Michigan Public School Employees' Retirement System (MPSERS) Pension Plan (Continued)

Benefits Provided

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

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

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

Contributions

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

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, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2019.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Contributions (Continued)

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	7.93%
Personal Healthcare Fund (PHF)	0.00	7.57

Required contributions to the OPEB plan from the School District were \$229,814 for the year ended September 30, 2019.

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

At June 30, 2020, the School District reported a liability of \$2,402,464 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The School 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, 2019, the School District's proportion was 0.03347%, which was a decrease of 0.00183% from its proportion measured as of October 1, 2018.

For the year ended June 30, 2020, the School District recognized OPEB expense of \$27,912. At June 30, 2020, the School 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 expected and actual experience	\$ 0	\$ 881,532
Changes of assumptions	520,565	0
Net difference between projected and actual earnings on OPEB plan investments	0	41,780
Changes in proportion and differences between School District contributions and proportionate share of contributions	0	151,616
School District contributions subsequent to the measurement date	208,104	0
Total	\$ 728,669	\$ 1,074,928

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

\$208,104 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Deferred (Inflows) and Deferred Outflows of Resources by Year
 (To Be Recognized in Future OPEB Expenses)**

		Amount
2020	\$	62,720
2021		(145,384)
2022		(123,892)
2023		(89,613)
2024		(50,090)
	\$	(346,259)

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:

- λ Valuation Date: September 30, 2018
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 2.75%
- λ Investment Rate of Return: 6.95%
- λ Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- λ Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12

Mortality: For Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For Active Members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Actuarial Assumptions (Continued)

λ Other Assumptions:

- Opt-Out Assumption: 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 periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2019 is based on the results of an actuarial valuation date of September 30, 2018, 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: 5.7101
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of 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, 2019, are summarized in the following table:

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Long-Term Expected Rate of Return on Plan Assets (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short-Term Investment Pools	2.0	0.8
	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, 2019, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.95% 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 6.95%. 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 School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net OPEB liability, calculated using a discount rate of 6.95%, as well as what the School 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 point higher:

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
\$ 2,946,983	\$ 2,402,464	\$ 1,945,219

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate
(Continued)

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 1,925,834	\$ 2,402,464	\$ 2,946,919

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

NOTE 12 - DEFERRED COMPENSATION PLANS

The School District offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the School District for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the School District's financial statements.

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Onaway Area Community Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$8,065 for the year ended June 30, 2020.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$8,280 for the year ended June 30, 2020. The assets of the plan are administered and held by PlanMember Services, a third party administrator.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 13 - DEFINED CONTRIBUTION PLAN

Plan Description

The School District's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Prior to February 2013, the School District employees who were part of the PPP were required to contribute 2% of their earnings for the plan year, unless they elected out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

Beginning February 2013 and after, the rates vary depending on which plan the active member is a participant of. The School District employees that are part of the PPP with Premium Subsidy or a Personal Healthcare Fund (PHF) are not required to contribute. If they do contribute they can contribute in full percent increments and the employer will match 50% of the contribution up to 1%. For the PPP with PHF the employee and employer contribution is 2% for the PHF.

The following are the DC pension and PHF contribution requirements for each applicable plan option:

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2020, the School District contributed \$16,561 on behalf of eligible employees. Employee contributions amounted to \$26,293 for eligible employees.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 14 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$0 as of June 30, 2020.

NOTE 15 - SINKING FUND

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 16 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 17 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 18 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2020, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 19 - SUBSEQUENT EVENTS

Subsequent to year end, the School District approved a State Aid Note through Huntington Public Capital Corporation. The note was issued on September 4, 2020 with a principal amount of \$1,450,000. The note matures on May 21, 2021 and bears interest at a rate of 1.78%.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 20 - PRIOR PERIOD ADJUSTMENTS

The June 30, 2019 financial statements have been restated for the following adjustments:

Adjustment 1 - Through review of the prior year depreciation schedules, multiple errors in depreciation were found, as well as assets being included that were no longer owned by the District. In order to correct this, a prior period adjustment was needed to decrease the beginning Governmental Activities Net Position.

Adjustment 2 - Compensated absences were incorrectly calculated in the prior year, overstating the prior year liability. In order to correct this, a prior period adjustment was needed to increase beginning Governmental Activities Net Position.

Adjustment 3 - In the prior year, deferred revenue was improperly recorded related to the inventory for commodities. In order to correct this, a prior period adjustment was needed to increase beginning Food Service Fund Balance and Governmental Activities Net Position.

Adjustment 4 - Because the Day Care Fund is not self sustaining and is substantially funded by General Fund appropriations, it was deemed appropriate to record a prior period adjustment incorporating the former Day Care Fund into the General Fund, increasing the beginning Governmental Activities Net Position and General Fund Fund Balance while decreasing Business-Type Funds Net Position.

	Governmental Activities	General Fund	Food Service Fund	Business-Type Funds
Net Position - Beginning	\$ (6,334,792)	\$ 638,353	\$ 103,657	\$ 726
Adjustment 1	(1,280,696)	0	0	0
Adjustment 2	27,852	0	0	0
Adjustment 3	8,913	0	8,913	0
Adjustment 4	<u>726</u>	<u>726</u>	<u>0</u>	<u>(726)</u>
Net Position - Beginning (Restated)	<u>\$ (7,577,997)</u>	<u>\$ 639,079</u>	<u>\$ 112,570</u>	<u>\$ 0</u>

REQUIRED SUPPLEMENTARY INFORMATION

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>
School District's proportion of net pension liability (%)	0.03435 %		0.03528 %		0.03526 %		0.03596 %		0.03668 %		0.03606 %
School District's proportionate share of net pension liability	\$ 11,374,697	\$	10,604,762	\$	9,138,311	\$	8,972,025	\$	8,959,764	\$	7,943,114
School District's covered payroll	\$ 2,909,968	\$	2,993,684	\$	2,941,848	\$	3,009,785	\$	3,126,371	\$	3,065,070
School District's proportionate share of net pension liability as a percentage of its covered payroll	390.89 %		354.24 %		310.63 %		298.10 %		286.59 %		259.15 %
Plan fiduciary net position as a percentage of pension liability	60.31 %		62.36 %		64.21 %		63.27 %		63.17 %		66.20 %

Notes to the Schedule of the School District's Proportionate Share of the Net Pension Liability:

Changes of benefit terms: There were no changes of benefit terms in 2019.

Changes of assumptions: There were no changes of benefit assumptions in 2019.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts determined as of 6/30 of each year)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 943,056	\$ 960,587	\$ 827,120	\$ 724,317	\$ 707,657	\$ 778,664
Contributions in relation to statutorily required contributions*	<u>943,056</u>	<u>960,587</u>	<u>827,120</u>	<u>724,317</u>	<u>707,657</u>	<u>778,664</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's covered payroll	\$ 3,012,770	\$ 3,036,615	\$ 3,985,588	\$ 2,908,368	\$ 3,126,371	\$ 3,065,070
Contributions as a percentage of covered payroll	31.30 %	31.63 %	20.75 %	24.90 %	22.64 %	25.40 %

*Contributions in relation to statutorily required pension contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

Notes to the Schedule of the School District's Pension Contributions:

Changes of benefit terms: There were no changes of benefit terms in 2019.

Changes of assumptions: There were no changes of benefit assumptions in 2019.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2020</u>		<u>2019</u>		<u>2018</u>
School District's proportion of net OPEB liability (%)	0.03347 %		0.03530 %		0.03540 %
School District's proportionate share of net OPEB liability	\$ 2,402,464	\$	2,806,151	\$	3,134,913
School District's covered payroll (OPEB)	\$ 2,909,968	\$	2,993,684	\$	2,491,848
School District's proportionate share of net OPEB liability as a percentage of its covered payroll	82.56 %		93.74 %		125.81 %
Plan fiduciary net position as a percentage of total OPEB liability	48.46 %		42.95 %		36.39 %

Notes to the Schedule of the School District's Proportionate Share of the Net OPEB Liability:

Changes of benefit terms: There were no changes of benefit terms in 2019.

Changes of assumptions: There were no changes of benefit assumptions in 2019.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts determined as of 6/30 of each year)

	2020	2019	2018
Statutorily required OPEB contributions	\$ 243,397	\$ 229,145	\$ 275,611
OPEB contributions in relation to statutorily required contributions*	<u>243,397</u>	<u>229,145</u>	<u>275,611</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's covered payroll (OPEB)	\$ 3,012,770	\$ 3,036,615	\$ 2,985,588
OPEB contributions as a percentage of covered payroll	8.08 %	7.55 %	9.23 %

*Contributions in relation to statutorily required OPEB contributions are the contributions a reporting unit actually made to the OPEB Plan, as distinct from the statutorily required contributions.

Notes to the Schedule of the School District's OPEB Contributions:

Changes of benefit terms: There were no changes of benefit terms in 2019.

Changes of assumptions: There were no changes of benefit assumptions in 2019.

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 2,631,628	\$ 2,694,407	\$ 2,725,644	\$ 31,237
State Sources	3,082,746	2,671,538	2,921,728	250,190
Federal Sources	246,685	196,159	204,959	8,800
Interdistrict Sources	<u>236,100</u>	<u>254,889</u>	<u>280,908</u>	<u>26,019</u>
Total Revenue	<u>6,197,159</u>	<u>5,816,993</u>	<u>6,133,239</u>	<u>316,246</u>
<u>Expenditures</u>				
Current:				
Instruction	4,256,651	4,142,251	4,131,937	10,314
Support Services	1,989,727	1,763,976	1,735,684	28,292
Community Services	1,100	1,000	74,006	(73,006)
Athletics	89,676	138,996	137,989	1,007
Capital Outlay	21,850	27,999	27,999	0
Debt Service:				
Principal Retirement	11,000	10,665	10,665	0
Interest and Fees on Long-Term Debt	<u>24,900</u>	<u>20,664</u>	<u>20,664</u>	<u>0</u>
Total Expenditures	<u>6,394,904</u>	<u>6,105,551</u>	<u>6,138,944</u>	<u>(33,393)</u>
Excess of Revenue Over (Under) Expenditures	<u>(197,745)</u>	<u>(288,558)</u>	<u>(5,705)</u>	<u>282,853</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	4,500	4,500	0
Operating Transfers In	0	0	20,000	20,000
Operating Transfers Out	<u>0</u>	<u>(43,000)</u>	<u>0</u>	<u>43,000</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>(38,500)</u>	<u>24,500</u>	<u>63,000</u>
Net Change in Fund Balances	(197,745)	(327,058)	18,795	345,853
Fund Balances - Beginning of Year (Restated)	<u>639,079</u>	<u>639,079</u>	<u>639,079</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 441,334</u>	<u>\$ 312,021</u>	<u>\$ 657,874</u>	<u>\$ 345,853</u>

OTHER INFORMATION

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2020

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Debt Service Fund</u>	
<u>Assets</u>			
Cash and Cash Equivalents	\$ 76,783	\$ 66,437	\$ 143,220
Receivables:			
Due From Other Governmental Units	1,550	0	1,550
Due from Other Funds	9,629	43,402	53,031
Inventory:			
Supplies	<u>7,837</u>	<u>0</u>	<u>7,837</u>
Total Assets	<u>\$ 95,799</u>	<u>\$ 109,839</u>	<u>\$ 205,638</u>
<u>Liabilities</u>			
Accounts Payable	\$ 1,072	\$ 0	\$ 1,072
Payroll Deductions and Withholdings	2,130	0	2,130
Accrued Expenditures	3,100	0	3,100
Salaries Payable	<u>6,102</u>	<u>0</u>	<u>6,102</u>
Total Liabilities	<u>12,404</u>	<u>0</u>	<u>12,404</u>
<u>Fund Equity</u>			
Fund Balances:			
Nonspendable:			
Inventory	7,837	0	7,837
Restricted For:			
Debt Retirement	0	109,839	109,839
Assigned To:			
Food Service	<u>75,558</u>	<u>0</u>	<u>75,558</u>
Total Fund Equity	<u>83,395</u>	<u>109,839</u>	<u>193,234</u>
Total Liabilities and Fund Equity	<u>\$ 95,799</u>	<u>\$ 109,839</u>	<u>\$ 205,638</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	Special Revenue Fund	Debt Retirement Fund	Total Other Governmental Funds
	Food Service Fund	Debt Service Fund	
<u>Revenue</u>			
Local Sources	\$ 46,192	\$ 555,237	\$ 601,429
State Sources	8,520	0	8,520
Federal Sources	<u>275,711</u>	<u>0</u>	<u>275,711</u>
Total Revenue	<u>330,423</u>	<u>555,237</u>	<u>885,660</u>
<u>Expenditures</u>			
Current:			
Food Services	338,911	0	338,911
Capital Outlay	687	0	687
Debt Service:			
Principal Retirement	0	485,000	485,000
Interest and Fees on Long-Term Debt	<u>0</u>	<u>78,735</u>	<u>78,735</u>
Total Expenditures	<u>339,598</u>	<u>563,735</u>	<u>903,333</u>
Excess of Revenue Over (Under) Expenditures	(9,175)	(8,498)	(17,673)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers Out	<u>(20,000)</u>	<u>0</u>	<u>(20,000)</u>
Net Change in Fund Balances	(29,175)	(8,498)	(37,673)
Fund Balances - Beginning of Year (Restated)	<u>112,570</u>	<u>118,337</u>	<u>230,907</u>
Fund Balances - End of Year	<u>\$ 83,395</u>	<u>\$ 109,839</u>	<u>\$ 193,234</u>

INDIVIDUAL FUND SCHEDULES

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020</u> <u>Amended</u> <u>Budget</u>	<u>2020</u> <u>Actual</u>	<u>2019</u> <u>Actual</u>
<u>Local Sources</u>			
Current Property Taxes	\$ 2,623,617	\$ 2,623,617	\$ 2,622,634
Tuition	0	23,766	22,936
Transportation Fees	1,575	1,575	4,582
Gate Receipts	16,182	16,182	18,885
Interest on Investments	5,964	6,148	10,693
Day Care	0	7,287	1,086
Miscellaneous Local Sources	<u>47,069</u>	<u>47,069</u>	<u>37,273</u>
	<u>2,694,407</u>	<u>2,725,644</u>	<u>2,718,089</u>
<u>State Sources</u>			
State Aid Foundation Allowance	1,789,558	2,036,247	2,138,799
Isolated Districts	30,793	30,793	30,289
Special Education	104,061	104,061	102,256
At Risk	259,786	263,287	268,758
First Robotics	4,700	4,700	4,300
Early Literacy Targeted Instruction	9,558	9,558	7,336
Vocational Education	0	0	25
MPSERS UAAL Rate Stabilization	366,714	366,714	388,489
Other MPSERS State Aid	106,368	106,368	79,880
Miscellaneous State Sources	<u>0</u>	<u>0</u>	<u>7,928</u>
	<u>2,671,538</u>	<u>2,921,728</u>	<u>3,028,060</u>
<u>Federal Sources</u>			
Title I Part A	151,193	151,193	165,500
Title II Part A	23,512	23,512	48,044
Title IV Part A	10,592	10,592	10,938
Title V Part B	10,862	10,862	11,268
Child Care Relief Fund	<u>0</u>	<u>8,800</u>	<u>0</u>
	<u>196,159</u>	<u>204,959</u>	<u>235,750</u>
<u>Interdistrict Sources</u>			
Special Education and Other Programs	162,024	168,413	149,692
Great Start Readiness Program	92,865	112,495	2,371
Services Provided to Other Public Schools	<u>0</u>	<u>0</u>	<u>127,185</u>
	<u>254,889</u>	<u>280,908</u>	<u>279,248</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	4,500	4,500	0
Operating Transfers In	<u>0</u>	<u>20,000</u>	<u>0</u>
	<u>4,500</u>	<u>24,500</u>	<u>0</u>
Total Revenue and Other Financing Sources	<u>\$ 5,821,493</u>	<u>\$ 6,157,739</u>	<u>\$ 6,261,147</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020</u> <u>Amended</u> <u>Budget</u>	<u>2020</u> <u>Actual</u>	<u>2019</u> <u>Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 653,667	\$ 636,629	\$ 644,605
Employee Benefits	607,943	588,194	619,274
Purchased Services	26,524	27,843	21,886
Supplies, Materials and Other	24,231	24,231	26,442
Repairs and Maintenance	12,410	12,410	10,959
Other Expenses	<u>1,984</u>	<u>1,974</u>	<u>2,906</u>
	<u>1,326,759</u>	<u>1,291,281</u>	<u>1,326,072</u>
Junior High School			
Salaries	373,915	373,033	387,258
Employee Benefits	315,476	315,166	335,770
Purchased Services	37,380	38,039	3,918
Supplies, Materials and Other	9,719	9,719	8,817
Repairs and Maintenance	0	0	1,245
Other Expenses	<u>982</u>	<u>961</u>	<u>1,342</u>
	<u>737,472</u>	<u>736,918</u>	<u>738,350</u>
High School			
Salaries	590,182	586,730	596,030
Employee Benefits	475,875	476,414	510,768
Purchased Services	80,702	78,521	58,732
Supplies, Materials and Other	34,692	34,586	42,246
Other Expenses	<u>1,591</u>	<u>1,560</u>	<u>2,186</u>
	<u>1,183,042</u>	<u>1,177,811</u>	<u>1,209,962</u>
Preschool			
Salaries	80,377	80,377	78,966
Employee Benefits	60,083	60,083	65,532
Purchased Services	6,330	6,330	2,130
Supplies, Materials and Other	<u>4,336</u>	<u>4,336</u>	<u>6,049</u>
	<u>151,126</u>	<u>151,126</u>	<u>152,677</u>
Summer School			
Salaries	9,765	9,765	12,349
Employee Benefits	3,181	3,181	3,969
Purchased Services	6,404	4,949	3,068
Supplies, Materials and Other	<u>840</u>	<u>840</u>	<u>2,155</u>
	<u>20,190</u>	<u>18,735</u>	<u>21,541</u>
 Total Basic Programs	 <u>3,418,589</u>	 <u>3,375,871</u>	 <u>3,448,602</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020 Amended Budget</u>	<u>2020 Actual</u>	<u>2019 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs:			
Special Education			
Salaries	\$ 248,451	\$ 175,064	\$ 161,193
Employee Benefits	199,798	156,140	130,896
Purchased Services	2,924	2,924	7,687
Supplies, Materials and Other	<u>5,142</u>	<u>3,236</u>	<u>2,198</u>
	<u>456,315</u>	<u>337,364</u>	<u>301,974</u>
Compensatory Education			
Salaries	149,839	238,502	271,792
Employee Benefits	110,147	172,933	218,205
Purchased Services	2,545	2,545	25,697
Supplies, Materials and Other	<u>4,816</u>	<u>4,722</u>	<u>864</u>
	<u>267,347</u>	<u>418,702</u>	<u>516,558</u>
Total Added Needs	<u>723,662</u>	<u>756,066</u>	<u>818,532</u>
Total Instruction	<u>4,142,251</u>	<u>4,131,937</u>	<u>4,267,134</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Purchased Services	<u>0</u>	<u>0</u>	<u>1,250</u>
Pupil Support Services			
Salaries	22,819	22,819	0
Employee Benefits	8,001	8,001	0
Purchased Services	133	133	0
Supplies, Materials and Other	<u>263</u>	<u>263</u>	<u>63</u>
	31,216	31,216	63
Total Pupil Services	<u>31,216</u>	<u>31,216</u>	<u>1,313</u>
Instructional Staff:			
Instructional Improvement			
Salaries	3,586	3,586	3,319
Employee Benefits	1,284	1,284	1,158
Purchased Services	<u>1,373</u>	<u>1,373</u>	<u>3,532</u>
	<u>6,243</u>	<u>6,243</u>	<u>8,009</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020 Amended Budget</u>	<u>2020 Actual</u>	<u>2019 Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff: (Continued)			
Library Services			
Salaries	\$ 19,391	\$ 19,391	\$ 19,536
Employee Benefits	9,655	9,655	13,691
Purchased Services	2,344	2,344	2,238
Supplies, Materials and Other	<u>2,287</u>	<u>2,287</u>	<u>2,438</u>
	<u>33,677</u>	<u>33,677</u>	<u>37,903</u>
 Total Instructional Staff	 <u>39,920</u>	 <u>39,920</u>	 <u>45,912</u>
 General Administration:			
Board of Education			
Salaries	2,625	2,625	20,250
Employee Benefits	670	670	1,549
Purchased Services	17,707	17,707	34,333
Supplies, Materials and Other	<u>7,398</u>	<u>5,398</u>	<u>3,093</u>
	<u>28,400</u>	<u>26,400</u>	<u>59,225</u>
 Executive Administration			
Salaries	126,112	124,348	155,228
Employee Benefits	81,430	80,810	78,201
Purchased Services	19,587	19,587	17,749
Supplies, Materials and Other	<u>19,377</u>	<u>17,346</u>	<u>27,519</u>
	<u>246,506</u>	<u>242,091</u>	<u>278,697</u>
 Total General Administration	 <u>274,906</u>	 <u>268,491</u>	 <u>337,922</u>
 School Administration:			
Office of the Principal			
Salaries	259,314	255,786	223,790
Employee Benefits	153,790	152,550	143,220
Purchased Services	1,481	1,481	2,362
Supplies, Materials and Other	1,178	1,178	455
Other Expenses	<u>1,190</u>	<u>1,180</u>	<u>335</u>
	<u>416,953</u>	<u>412,175</u>	<u>370,162</u>
 Other Administration			
Supplies, Materials and Other	<u>1,904</u>	<u>1,904</u>	<u>2,729</u>
 Total School Administration	 <u>418,857</u>	 <u>414,079</u>	 <u>372,891</u>

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020 Amended Budget</u>	<u>2020 Actual</u>	<u>2019 Actual</u>
<u>Support Services (Continued)</u>			
Business:			
Business Services			
Purchased Services	\$ 7,484	\$ 7,484	\$ 7,298
Fiscal Services			
Salaries	40,005	39,123	35,636
Employee Benefits	28,610	28,300	26,477
Purchased Services	3,345	3,345	4,503
Supplies, Materials and Other	2,000	34	69
Other Expenditures	600	600	416
	74,560	71,402	67,101
Total Business	82,044	78,886	74,399
Operations and Maintenance:			
Salaries	154,584	154,584	161,511
Employee Benefits	98,339	98,339	116,133
Purchased Services	124,421	124,421	127,302
Supplies, Materials and Other	153,353	145,805	154,059
	530,697	523,149	559,005
Transportation:			
Salaries	112,570	110,806	107,783
Employee Benefits	57,013	56,394	56,384
Purchased Services	24,647	24,647	31,051
Supplies, Materials and Other	54,378	50,378	84,564
Other Expenses	533	533	835
	249,141	242,758	280,617
Technology:			
Salaries	45,415	45,415	44,190
Employee Benefits	27,169	27,169	33,614
Purchased Services	55,603	55,603	51,383
Supplies, Materials and Other	9,008	8,998	17,341
	137,195	137,185	146,528
Total Support Services	1,763,976	1,735,684	1,818,587
<u>Community Services</u>			
Custody and Care of Children:			
Salaries	0	30,016	30,938
Employee Benefits	0	31,824	30,593
Purchased Services	0	10,175	15,857
Supplies, Materials and Other	0	1,733	14,040
	0	73,748	91,428

ONAWAY AREA COMMUNITY SCHOOLS
Cheboygan and Presque Isle Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020 Amended Budget</u>	<u>2020 Actual</u>	<u>2019 Actual</u>
<u>Community Services</u> (Continued)			
Other Community Services:			
Supplies, Materials and Other	\$ <u>1,000</u>	\$ <u>258</u>	\$ <u>576</u>
Total Community Services	<u>1,000</u>	<u>74,006</u>	<u>92,004</u>
<u>Athletics</u>			
Salaries	53,109	53,109	34,450
Employee Benefits	18,490	18,490	11,589
Equipment and Supplies	6,194	6,194	4,690
Purchased Services	55,243	54,482	51,649
Other Expenditures	<u>5,960</u>	<u>5,714</u>	<u>18,310</u>
Total Athletics	<u>138,996</u>	<u>137,989</u>	<u>120,688</u>
<u>Capital Outlay</u>			
Instruction	0	0	2,954
Support Services	<u>27,999</u>	<u>27,999</u>	<u>21,429</u>
Total Capital Outlay	<u>27,999</u>	<u>27,999</u>	<u>24,383</u>
<u>Debt Service</u>			
Principal Retirement	10,665	10,665	10,665
Interest and Fees on Long-Term Debt	<u>20,664</u>	<u>20,664</u>	<u>17,483</u>
Total Debt Service	<u>31,329</u>	<u>31,329</u>	<u>28,148</u>
<u>Operating Transfers Out</u>			
Operating Transfers Out	<u>43,000</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$ 6,148,551</u>	<u>\$ 6,138,944</u>	<u>\$ 6,350,944</u>



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

September 25, 2020

INDEPENDENT AUDITORS' 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
Onaway Area Community Schools
Cheboygan and Presque Isle Counties, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities each major fund and the aggregate remaining fund information of Onaway Area Community Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Onaway Area Community Schools' basic financial statements and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a material weakness.

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

2020-001 Financial Statement Preparation Controls

Condition and Criteria: If at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency.

Cause: In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements.

Effect: The effect of this material weakness is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles (GAAP) and the District would not be in a position to detect the errors or omissions.

View of Responsible Officials: The District understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefits outweigh the risk. However, the District mitigates the risk by striving to not have any adjusting journal entries proposed by the auditor at year end. In addition, the 2020 PPC Governmental Disclosure Checklist is received and reviewed by the District's Accountant as part of reviewing and approving their financial statements to assist in ensuring that all required disclosures are properly included in the financial statements.

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. We consider the deficiencies described below to be significant deficiencies.

2020-002 Segregation of Duties - Bank Statement Review

Condition and Criteria: Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Bank statements (including copies of canceled checks and electronic activity) should be reviewed thoroughly each month by a member of the Board.

Cause: Although a Board Member is in fact reviewing the bank statements each month, their review does not include the electronic activity or cancelled check images specifically.

Effect: The effect of not reviewing canceled checks and electronic activity is that it provides a greater opportunity for misappropriation of assets without detection.

View of Responsible Officials: The District understands the concern, and will begin having a Board Member review the electronic activity and cancelled check images each month, as a part of our their regular bank statement review.

2020-003 Expense Documentation

Condition and Criteria: Proper internal controls requires proper supporting documentation be available and reviewed prior to payment.

Cause: During the audit, we noted that proper supporting documentation for credit card disbursements was not always available.

Effect: By not matching each expense with a receipt, expenses could be overlooked, and personal employee expenses could easily slip through as business expenses.

View of Responsible Officials: The District understands the concern and will begin requiring original invoices, as well as descriptions of the items purchased when necessary, be attached directly to the corresponding credit card statement each month prior to the bill being paid.

Compliance and Other Matters

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

Onaway Area Community Schools' Responses to the Findings

Onaway Area Community Schools' responses to the findings identified in our audit are described above. Onaway Area Community Schools' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 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.

Stephenson & Company, P.C.



Onaway Area Community School



4549 M-33 Hwy. Onaway, MI 49765
Ph: (989) 733-2700 • Fax: (989) 733-8612
Rod Fullerton • rfullerton@oacsd.com

Working together to prepare students for life.

Go Cardinals!!

Corrective Action Plan 2019-2020 Fiscal Year

2020-001 – Financial Statement Preparation Controls

Condition: In conjunction with our audit, the District contracted for the preparation of the financial statements and related disclosures based on the information the District provides. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit the auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. The effect of this material weakness is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles (GAAP) and the District would not be in a position to detect the errors or omissions.

Corrective Action: The District has evaluated this situation and determined that the efficiency of contracting for this service outweighs the risks associated with outsourcing this reporting.

Contact Person Responsible for Corrective Action: Business Manager, Rod Fullerton

Anticipated Completion Date: None

2020-002 – Segregation of Duties – Bank Statement Review

Condition: Bank statements (including copies of canceled checks and electronic activity) should be reviewed thoroughly each month by a member of the Board. Although a Board Member is in fact reviewing the bank statements each month their review did not include the electronic activity or cancelled check images specifically.

Corrective Action: The District will require that the Board Member reviewing the bank statements also review the electronic activity and canceled check images monthly.

2020-002 – Segregation of Duties – Bank Statement Review (Continued)

Contact Person Responsible for Corrective Action: Business Manager, Rod Fullerton

Anticipated Completion Date: October 31, 2020

2020-003 – Expense Documentation

Condition : It was noted that proper supporting documentation for credit card disbursements was not always available. By not matching each expense with a receipt, expenses could be overlooked, and personal employee expenses could easily slip through as a business expense.

Corrective Action: The District will require that original invoices and further descriptions of items purchased (as necessary for accounting purposes) be attached directly to the corresponding credit card statement each month prior to the bill being paid.

Contact Person Responsible for Corrective Action: Business Manager, Rod Fullerton

Anticipated Completion Date: October 31, 2020



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

September 25, 2020

Management and the Board
Onaway Area Community Schools
4549 M-33
Onaway, MI 49765

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Onaway Area Community Schools for the year ended June 30, 2020. 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 July 6, 2020. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on August 6, 2020. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the District and the Michigan Department of Education and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

Stephenson & Company, P.C.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Significant Audit Matters

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Onaway Area Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by Onaway Area Community Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting Onaway Area Community Schools' financial statements were:

Management's estimate of the Net Pension Liability and OPEB Liability are based on actuarial valuations audited by the Auditor General. We evaluated the key factors and assumptions used to develop the Net Pension Liability and OPEB Liability in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatement

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements as a whole, and material misstatements provided to management on September 25, 2020 were corrected by management.

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 September 25, 2020.

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 Onaway Area Community Schools' 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 Onaway Area Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, the Budgetary Comparison Information, and the Required Pension and OPEB Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Onaway Area Community Schools as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Onaway Area Community Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Onaway Area Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Onaway Area Community Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. The effect of this material weakness is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles (GAAP) and the District would not be in a position to detect the errors or omissions. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

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. We consider the following deficiencies in Onaway Area Community Schools' internal control to be significant deficiencies:

SEGREGATION OF DUTIES – BANK STATEMENT REVIEW

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the District's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. Bank statements (including copies of canceled checks and electronic activity) should be reviewed thoroughly each month by a member of the Board. We would like to note that in our audit, we did note that a Board Member is in fact reviewing the bank statements each month, but that their review did not include the electronic activity or cancelled check images specifically. We recommend that this enhancement to the current process be implemented, with any unusual items noted during the review being investigated promptly.

EXPENSE DOCUMENTATION

During the audit, we noted that proper supporting documentation for credit card disbursements were not always available. By not matching each expense with a receipt, expenses could be overlooked, and personal employee expenses could easily slip through as a business expense. We recommended that procedures be implemented to

**APPENDIX II
MANAGEMENT COMMENTS**

attach the original invoices directly to their corresponding credit card statement each month, prior to the bill being paid, and to document on the invoice the purpose of the purchase, if not easily determinable by the invoice description.

During our audit, we also became aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency.

DAY CARE REVENUE

During the audit we found that verification of the completeness of Day Care deposits by an independent party was not being done. In addition, we found that all invoicing and payments were being tracked manually and not through an electronic system. While we would like to note that in our recalculating and testing of the receipts, we found no discrepancies in amounts being deposited, we believe it would be beneficial to the District to implement an electronic system, such as utilizing QuickBooks software, for tracking the Day Care activity, to help reduce the risk of manual errors from being made. We further recommend that the Business Office begin verifying the deposits for completeness. This verification could include comparing the cost per child with the daily rosters, compared to the total deposit for that time frame. Verification of the daily rosters should then also be periodically tested by performing a random headcount of those students in the Day Care on a given day, compared to those reported on the roster.

BOARD MINUTE DOCUMENTATION

Through review of the current year board minutes, we found that although the Board indicated knowledge of bidding procedures taking place regarding Sinking Fund projects, it did not appear that the Board was formally approving those bids, as required by the Revised School Code. We recommend that the Board formally approve all such bids in their regular board meetings moving forward when purchases exceed the state threshold. If such approvals are in fact occurring currently and are simply not being included in the formal documented minutes, we recommend that the Board implement procedures to ensure that all motions are properly included in the approved board minutes each month, to support compliance with the Revised School Code.

CASH MANAGEMENT

The Michigan Department of Education’s Auditing Manual requires that all monies are not requested until after the expenses have been not only incurred but actually disbursed as well. During our audit, we found that the summer payroll and related benefits, that would not be fully paid out until the end of August, were drawn down in June. We recommend that management establish procedures to ensure that all dollars have been fully disbursed, prior to requesting the related grant funds.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Segregation of Duties				X