

**Benzie County Central School District**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2014

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Benzie County Central School's annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. It is meant to be read in conjunction with the transmittal letter following this report and the District's financial statements immediately following.

### FINANCIAL HIGHLIGHTS

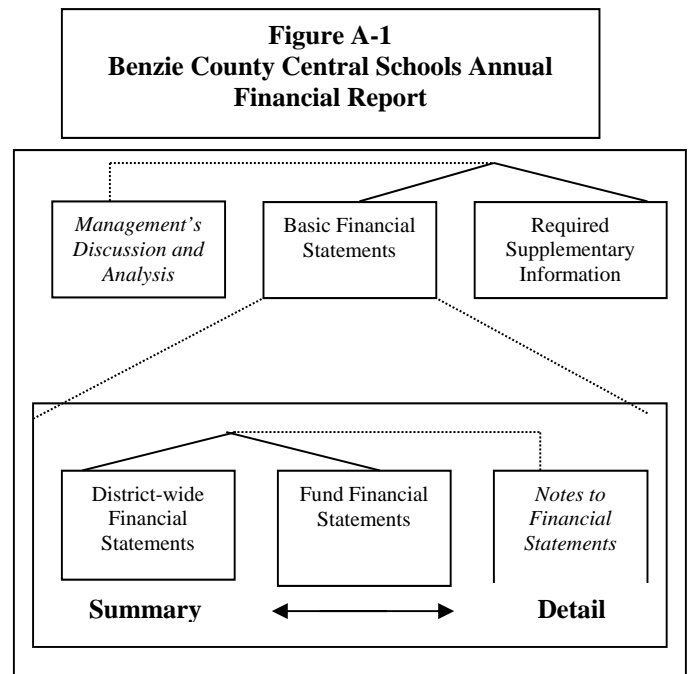
- The District continued to be challenged by declining enrollment, decreased revenues and increasing expenditures.
- Foundation grant increased by \$60/pupil from \$6,966/pupil to \$7,026/pupil. Blended enrollment increased slightly by 3.59 FTEs, or 0.22%, compared to June 2013 (6/30/13 = 1,632.10 – 6/30/14 = 1,635.69).
- The District's contribution rate for employee retirement remained at 29.35%.

The BCCEA (Teachers) contract is settled through 2013/14. The contract included a -1% step increase for 11/12 and 12/13, a 1% increase for 13/14, and a 20% share of all healthcare costs. This contract will be negotiated in 14/15. The BCCESP Transportation, Paraprofessional/Clerical and Custodial and Food Service contracts are settled through 2013/15, and all will require negotiations in the 2015/16 school year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

**DISTRICT-WIDE STATEMENTS**

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

The two district-wide statements report the District’s *net position* and how it has changed. Net position – the difference between the District’s assets and liabilities – is one way to measure the District’s financial health.

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

## FUND FINANCIAL STATEMENTS

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

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

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements explaining the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net position** – The District's *combined* net position increased from \$3,319,296 to, \$3,639,535 an increase of \$320,239.

	2013	2014
Current and other assets	\$ 4,476,328	\$ 3,855,275
Capital assets	9,812,753	9,529,265
Deferred outflows of resources	108,022	89,390
Total assets	<u>14,397,103</u>	<u>13,473,930</u>
Long-term debt outstanding	8,124,596	6,987,967
Other liabilities	2,953,211	2,846,428
Total liabilities	<u>11,077,807</u>	<u>9,834,395</u>
Net position		
Invested in capital assets, net of related debt	2,006,270	2,452,997
Restricted	208,448	196,097
Unrestricted	<u>1,104,578</u>	<u>990,441</u>
Total net position	<u>\$ 3,319,296</u>	<u>\$ 3,639,535</u>

**Change in Net Position** - The District's financial position is the product of several independent factors. Overall, revenues and expenses both decreased when compared to last year's data, but the result was an increase in net position. The change in net position for 13/14 is \$320,239 compared to \$253,725 for 12/13. A breakout of this \$320,239 can be found on page 6 of the audit. Revenues, in most cases can't be controlled by the District, but the District continues to hold the line and decrease expenditures as compared to last year.

Revenues	2013	2014
Property Taxes		
Levied for general purposes	6,703,963	6,606,561
Levied for debt service	1,247,322	1,251,648
State School Aid - unrestricted	4,694,490	4,859,657
Grants & contributions not restricted	168,683	192,890
Gain on sale of property & equipment	-	-
Charges for services	257,823	247,291
Operating grants and contributions	2,664,656	2,675,675
Capital grants and contributions	16,484	-
State School Aid - unrestricted		
Special Item - Gain on disposal of assets		2,787
Investment and other	11,881	8,863
Total revenues	<u>15,765,302</u>	<u>15,845,372</u>
Expenses		
Instruction	8,611,196	8,559,019
Support services	4,948,123	5,039,025
Community services	515	3,990
Food services	776,946	665,237
Athletics	208,595	226,978
Other	44,087	43,701
Interest on long-term debt	379,688	346,159
Depreciation	542,427	641,024
Total expenses	<u>15,511,577</u>	<u>15,525,133</u>
Change in net position	253,725	320,239
Net position, beginning of the year	<u>3,065,571</u>	<u>3,319,296</u>
Net position, end of the year	<u>\$ 3,319,296</u>	<u>\$ 3,639,535</u>

### **District Governmental Activities**

The District continued to maintain its sound financial planning and personnel management for the 2013/14 School Year.

- Teachers retiring or resigning from the District are replaced only if enrollments dictate the need for increased instruction.
- The District attempts to replace all resigning or retiring teachers at lower or entry level salary steps than the departing incumbent.
- Grant funded programs are totally dependent upon dollars received. If dollars coming in from the grant decrease, expenses are decreased accordingly.
- The District continues to assess enrollment and has established a baseline classroom size of not less than 15 students. Enrollment is reviewed constantly throughout the year.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its general fund reported a fund balance of \$1,167,194 (8.3% of expenditures). Considering the non-spendable inventory, committed subsequent year expenditures and assigned employee sick time of \$296,757, the unassigned fund balance is \$870,437, or 6.1% of expenditures.

### General Fund Budgetary Highlights

Over the course of the year, the District revises the annual operating budget quarterly. The District begins the school year the last week of August, before the State's fiscal year begins in October. Therefore, budget assumptions made by the District earlier in the year may not materialize when the State implements the education budget.

Changes are made to final student enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Depreciable assets for the 2013/14 school year totaled \$19,564,111, \$190,802 more than 12/13. Three new buses and technology equipment were purchased with funding from the Bus/Tech Bond passed the end of last year. For more details, see Note E, on page 18 of the audit.

	2013	2014
Buildings & improvements	\$ 16,400,699	\$ 16,400,699
Furniture & equipment	1,581,078	1,705,312
Buses & vehicles	1,391,532	1,458,100
Total	<u>\$ 19,373,309</u>	<u>\$ 19,564,111</u>
Increase/(Decrease)		\$ 190,802

### Long-term Debt

At year-end the District had \$8,120,341 in Long-Term Debt. (More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.)

	2013	2014
General obligation debts (financed with property taxes)	\$ 6,080,000	\$ 5,210,000
Energy Conservation Bond	1,040,000	955,000
Tech/Bus Bond	1,875,000	1,765,000
Bus Loan	69,000	-
Unaccrued Premium	13,847	11,473
Unamortized refinancing cost	-	-
Accumulated Sick & Vacation Leave	183,123	178,868
Total	<u>\$ 9,260,970</u>	<u>\$ 8,120,341</u>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The 2014/15 foundation allowance is set at \$7,251, an increase of \$225/pupil. The *preliminary blended* student count for the 2014/15 school year reflects a blended count of 1,614, a decrease of 21.69 students compared to the 2013/14 blended count of 1,635.69. At the 14/15 foundation rate of \$7,251/pupil, the 21.69 decrease represents a loss of \$157,274 to the District. The official count will not occur until October 2014, after this audit is published.
- The District's retirement contribution rate for 2013/14 will increase to 33.995%, an increase of 4.64%.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Additional financial data can be found on the District's website <http://www.benzieschools.net>. If you have questions about this report or need additional information, contact the Central Business Office, Benzie County Central Schools, 9222 Homestead Rd, Benzonia MI 49616.





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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Benzie County Central School District

### **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 the *Benzie County Central School District* (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District'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 the Benzie County Central School District as of June 30, 2014, 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 on pages *i* through *vi*, and Budgetary Comparison Information on page 26, 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 inquires 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 the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards 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 the Schedule of Expenditures of Federal Awards are fairly stated in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

October 6, 2014

# Benzie County Central School District

## STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,376,633
Intergovernmental receivable	1,375,499
Inventory	<u>103,143</u>
Total current assets	3,855,275
Capital assets, net of accumulated depreciation	<u>9,529,265</u>
Total assets	13,384,540
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on refunding	<u>89,390</u>
Total assets and deferred outflows of resources	<u><u>\$ 13,473,930</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 1,314,302
State aid anticipation note payable	362,811
Salaries payable and related liabilities	36,941
Current portion of long-term liabilities	<u>1,132,374</u>
Total current liabilities	2,846,428
Non-current portion of long-term obligations	<u>6,987,967</u>
Total liabilities	<u>9,834,395</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	2,452,997
Restricted for	
Debt Service	196,097
Unrestricted	<u>990,441</u>
Total net position	<u>3,639,535</u>
Total liabilities and net position	<u><u>\$ 13,473,930</u></u>

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

## Benzie County Central School District

### STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 8,559,019	\$ -	\$ 2,197,250	\$ -	\$ (6,361,769)
Supporting Services	5,039,025	-	-	-	(5,039,025)
Community Services	3,990	-	-	-	(3,990)
Food Service	665,237	190,805	478,425	-	3,993
Athletic	226,978	56,486	-	-	(170,492)
Other	43,701	-	-	-	(43,701)
Interest on long-term debt	346,159	-	-	-	(346,159)
Depreciation-unallocated	<u>641,024</u>	-	-	-	<u>(641,024)</u>
Total governmental activities	<u>\$ 15,525,133</u>	<u>\$ 247,291</u>	<u>\$ 2,675,675</u>	<u>\$ -</u>	<u>(12,602,167)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					6,606,561
Levied for debt service					1,251,648
State school aid - unrestricted					4,859,657
Grants and contributions not restricted to specific program					192,890
Investment and other					<u>8,863</u>
Total general purpose revenues					<u>12,919,619</u>
Special item - gain on disposal of assets					<u>2,787</u>
Change in net position					320,239
Net position, beginning of year					<u>3,319,296</u>
Net position, end of year					<u>\$ 3,639,535</u>

-6- The accompanying notes are an integral part of these financial statements.

# Benzie County Central School District

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	2012 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,369,881	\$ 775,815	\$ 230,937	\$ 2,376,633
Other receivables	-	-	1,349	1,349
Intergovernmental receivable	1,333,174	-	40,976	1,374,150
Due from other funds	17,728	-	-	17,728
Inventory	91,450	-	11,693	103,143
Total assets	\$ 2,812,233	\$ 775,815	\$ 284,955	\$ 3,873,003
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and due to other governments	\$ 1,282,228	\$ -	\$ 32,074	\$ 1,314,302
Due to other funds	-	-	17,728	17,728
State aid anticipation note payable	362,811	-	-	362,811
Total liabilities	1,645,039	-	49,802	1,694,841
<b>FUND BALANCES</b>				
Nonspendable - inventory	91,450	-	11,693	103,143
Restricted				
Debt retirement	-	-	233,038	233,038
Capital projects	-	775,815	-	775,815
Committed - subsequent year expenditures	26,439	-	-	26,439
Assigned - employee sick time	178,868	-	-	178,868
Unassigned (deficit)	870,437	-	(9,578)	860,859
Total fund balances	1,167,194	775,815	235,153	2,178,162
Total liabilities and fund balances	\$ 2,812,233	\$ 775,815	\$ 284,955	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$19,617,552 and the accumulated depreciation is \$(10,088,287).

9,529,265

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

Bonds and loans payable	\$ 7,930,000	
Accrued interest on bonds	36,941	
Unaccreted premium	11,473	
Unamortized loss on bond refunding	(89,390)	
Accumulated leave liability	178,868	(8,067,892)

Total net position - governmental activities \$ 3,639,535

## Benzie County Central School District

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

Year Ended June 30, 2014

	General Fund	2012 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 6,606,561	\$ -	\$ 1,251,648	\$ 7,858,209
Interest	5,664	1,957	1,242	8,863
State revenues	6,198,893	-	26,008	6,224,901
Federal revenues	524,070	-	452,417	976,487
Other	591,020	-	190,805	781,825
Total revenues	13,926,208	1,957	1,922,120	15,850,285
Expenditures				
Instruction	8,563,274	-	-	8,563,274
Supporting Services	5,019,379	-	-	5,019,379
Community Services	3,990	-	-	3,990
Food Service	-	-	665,237	665,237
Athletic	226,978	-	-	226,978
Other	13,667	-	-	13,667
Debt Service				
Principal	154,000	-	980,000	1,134,000
Interest	45,695	-	292,338	338,033
Other	-	29,121	913	30,034
Capital outlay	19,732	360,363	2,000	382,095
Total expenditures	14,046,715	389,484	1,940,488	16,376,687
<b>REVENUES UNDER EXPENDITURES</b>	(120,507)	(387,527)	(18,368)	(526,402)
Fund balance, beginning of year	1,287,701	1,163,342	253,521	2,704,564
Fund balance, end of year	\$ 1,167,194	\$ 775,815	\$ 235,153	\$ 2,178,162

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

## Benzie County Central School District

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

Year Ended June 30, 2014

**Total Net Change in Fund Balances - Governmental Funds** \$ (526,402)

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

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

	Capital outlays	\$ 362,449	
	Depreciation expense	<u>(641,024)</u>	(278,575)

Proceeds from the sale of assets are revenues in the governmental funds, but it reduces capital assets, net of accumulated depreciation in the statement of net position with any difference reported as a gain or loss in the statement of activities.

	Proceeds	\$ (7,700)	
	Gain	<u>2,787</u>	(4,913)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts paid by \$4,255.

4,255

Repayment of bond principal is an expenditure or other financing use in the governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

1,134,000

Net amortization of bond premium and deferred loss on refunding.

(16,258)

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

8,132

**Changes in Net Position of Governmental Activities**

\$ 320,239



**Benzie County Central School District**

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>66,600</u>
<b>LIABILITIES</b>	
Due to student groups	\$ <u>66,600</u>

# **Benzie County Central School District**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

Benzie County Central School District (the "School District") is a Michigan public school district consisting of four elementary schools, a middle school and a high school. The School District primarily serves the Benzonia, Lake Ann, Honor and Crystal Lake communities. As of June 30, 2014, the School District employs 85 professional staff and 79 non-professional staff, and has 1,632 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2014.

#### ***The Financial Reporting Entity***

Benzie County Central School District's Board is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Benzie County Central School District includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature of significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

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

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

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

### *Fund Financial Statements*

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

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

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

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

The 2012 Capital Projects Fund is used to account for financial resources to be used for the acquisition or improvement of capital assets.

#### *Other Governmental Funds*

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

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

#### *Fiduciary Funds*

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

### ***Cash and Equivalents***

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

### ***Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

### ***Capital Assets***

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

## NOTES TO FINANCIAL STATEMENTS - Continued

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

Buildings	50 years
Improvements, other than buildings	20 years
Buses and vehicles	10 years
Furniture and equipment	5 years

### ***Long-term Debt and Bond Discounts/Premiums***

In the government-wide financial statements, outstanding debt is reported as a liability. Bond discounts and premiums are deferred and amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### ***Deferred Inflows and Outflows***

In addition to assets, the statement of financial position includes 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District only has one item that qualifies for reporting in this category, which is the deferred loss on debt refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

### ***Fund Balance***

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Program Revenues***

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

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

### ***Encumbrance Accounting***

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

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

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

The School District has elected to not allocate indirect expenses.

### ***Use of Estimates in the Preparation of Financial Statements***

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

### ***Impact of Recently Issued Accounting Principles***

In June 2012, the GASB issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 68 is effective for fiscal years beginning after June 15, 2014.

GASB 68 requires employers to report net pension benefits as a liability in the Statement of Net Position. The Statement requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. An estimate of the School District's net pension liability at June 30, 2014 is \$21,606,000.

**NOTE B - BUDGETARY POLICY AND PRACTICE**

*Excess of Expenditures Over Appropriations in Budgeted Funds*

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2014, the School District was in compliance with that provision.

*Deficit in Food Service Fund*

The Food Service Fund shows a deficit in unassigned fund balance of \$9,578, which is entirely offset by non-spendable fund balance related to inventories. The School District uses the consumption method of accounting for inventories, therefore the deficit in unassigned fund balance does not represent expenditures in excess of revenues and available fund balance.

**NOTE C - CASH AND INVESTMENTS**

At June 30, 2014, the School District's cash and investments include the following:

	<u>Cash and Equivalents</u>
Bank deposits	<u>\$ 2,443,233</u>

*Bank Deposits*

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

As of June 30, 2014, \$1,275,510 of the School District's bank balance of \$1,708,840 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District.

In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as unearned revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$367 million and \$6 per \$1,000 of equalized commercial personal property value of \$12 million was levied for general operating purposes. For debt service purposes, \$1.72 per \$1,000 of total equalized property value of \$728 million was levied for bonded debt repayments by the Debt Service Fund.

*Intergovernmental Receivables and Unearned Revenue*

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Unearned revenues in the governmental fund financial statements include grant revenue for which eligible requests have not been met.

Amounts due from other governments at June 30, 2014 are as follows:

Due from the State of Michigan	
State Aid	\$ 1,117,212
Due from Federal Grants	128,665
Other receivables	<u>129,622</u>
	<u>\$ 1,375,499</u>



NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Buildings and improvements	\$16,400,699	\$ -	\$ -	\$ 16,400,699
Furniture and equipment	1,581,078	124,234	-	1,705,312
Buses and vehicles	<u>1,391,532</u>	<u>238,215</u>	<u>(171,647)</u>	<u>1,458,100</u>
Total depreciable assets	19,373,309	362,449	(171,647)	19,564,111
Less accumulated depreciation	(9,613,997)	(641,024)	166,734	(10,088,287)
Land	<u>53,441</u>	<u>-</u>	<u>-</u>	<u>53,441</u>
Total capital assets, net	<u>\$ 9,812,753</u>	<u>\$ (278,575)</u>	<u>\$ (4,913)</u>	<u>\$ 9,529,265</u>

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

Unallocated	<u>\$ (641,024)</u>
-------------	---------------------

**NOTE F - STATE AID ANTICIPATION NOTE PAYABLE**

The State Aid anticipation notes were issued to fund operations until State aid was received. The notes were secured by July and August State aid payments, bearing interest at 0.43% and are due August 20, 2014. Changes in State aid anticipation notes payable during the year ended June 30, 2014 were as follows:

<u>Beginning</u> <u>Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending</u> <u>Balance</u>
<u>\$ 358,234</u>	<u>\$ 2,500,000</u>	<u>\$ 2,495,423</u>	<u>\$ 362,811</u>

In July 2014 a \$2,600,000 State Aid anticipation note was secured for the 2014-2015 school year.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE G - LONG-TERM LIABILITIES**

Changes in long-term debt during the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Defeasance</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 6,080,000	\$ -	\$ (870,000)	\$ 5,210,000	\$ 930,000
Energy conservation bonds	1,040,000	-	(85,000)	955,000	90,000
Technology and bus bonds	1,875,000	-	(110,000)	1,765,000	110,000
Bus loan	69,000	-	(69,000)	-	-
Unaccreted premium	13,847	-	(2,374)	11,473	2,374
Accumulated leave liability	<u>183,123</u>	<u>-</u>	<u>(4,255)</u>	<u>178,868</u>	<u>-</u>
Long-term debt at June 30, 2014	<u>\$ 9,260,970</u>	<u>\$ -</u>	<u>\$ (1,140,629)</u>	<u>\$ 8,120,341</u>	<u>\$ 1,132,374</u>

Payments on general obligation and technology and bus bonds are made by the Debt Service Funds. All other borrowing and the accumulated leave liability will be liquidated primarily by the General Fund.

At June 30, 2014, the School District's long-term debt consisted of the following:

\$8,260,000 2005 School District refunding general obligation bonds for the advance refunding of the School District's 1999 bond issue; due in annual installments of \$320,000 to \$1,145,000 through May 1, 2019; plus interest at a rate of 3.0% to 4.15%.	\$ 5,210,000
\$1,340,000 2009 Energy Conservation Bonds for the purpose of energy conservation improvements; due in installments of \$85,000 to \$105,000 through June 2024; plus interest at a rate of .90% over the prime rate.	955,000
\$1,985,000 2012 Technology and Bus Bonds for purchasing busses and equipping school buildings with technology; due in annual installments of \$110,000 through 2019, with a final payment of \$1,215,000 due May 1, 2020; plus interest at a rate of 1.25% to 2.75%.	<u>1,765,000</u>
Total general obligation bonds payable	7,930,000
Unamortized premium	11,473
Accumulated leave liability	<u>178,868</u>
Total long-term debt	<u>\$ 8,120,341</u>

Interest expense for the year ended June 30, 2014 was \$346,159 and interest paid was \$338,033.

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds and loans outstanding as of June 30, 2014 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,130,000	\$ 294,686
2016	1,190,000	252,156
2017	1,245,000	207,116
2018	1,305,000	159,193
2019	1,350,000	107,891
2020-2024	<u>1,710,000</u>	<u>96,078</u>
	<u>\$ 7,930,000</u>	<u>\$ 1,117,120</u>

***Accumulated Leave Liability***

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

**NOTE H - RISK MANAGEMENT**

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to the Benzie County Central School District. At June 30, 2014, there were no significant unbilled claims.

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

*Receivables and Payables*

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Fund:		
General Fund	\$ 17,728	\$ -
Non-major Fund:		
Food Service Fund	<u>-</u>	<u>17,728</u>
	<u>\$ 17,728</u>	<u>\$ 17,728</u>

*Transfers and Payments*

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

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities column.

**NOTE J - PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

The School District contributes to the Michigan Public School Employees Retirement Systems ("MPSERS"), statewide cost-sharing multiple-employer defined benefit and defined contribution pension plans administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement System, P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy**

***Defined Benefit Plan***

Employer contributions to the system result from implementing the effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

***Defined Contribution Plan***

Employer contributions to the system are dependent on the plan elected by the participant, as outlined in the following table.

***Employee Contributions***

Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging for 0 to 7% of gross wages.

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NOTES TO FINANCIAL STATEMENTS - Continued

**Employer Contributions**

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate  
Active Members and Qualified Participants - Effective February 1, 2013

	<u>Basic/MIP with Premium Subsidy</u>	<u>Pension Plus with Premium Subsidy</u>	<u>Pension Plus with PHF</u>	<u>Pension Plus to DC with PHF</u>	<u>Basic/MIP to DC with Premium Subsidy</u>	<u>Basic/MIP to DC with PHF</u>	<u>Basic/MIP with PHF</u>
<b>Defined Benefit Plan Contributions:</b>							
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
<b>Defined Contribution Plan Contributions:</b>							
Employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

Fiscal Year 2013-2014 Employer Contribution Rate  
Active Members and Qualified Participants - Effective October 1, 2013

	<u>Basic/MIP with Premium Subsidy</u>	<u>Pension Plus with Premium Subsidy</u>	<u>Pension Plus with PHF</u>	<u>Pension Plus to DC with PHF</u>	<u>Basic/MIP to DC with Premium Subsidy</u>	<u>Basic/MIP to DC with PHF</u>	<u>Basic/MIP with PHF</u>
<b>Defined Benefit Plan Contributions:</b>							
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
<b>Defined Contribution Plan Contributions:</b>							
Employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

## NOTES TO FINANCIAL STATEMENTS - Continued

The School District's contributions to the MPSERS Defined Benefit Plan for the years ended June 30, 2014, 2013 and 2012 were \$2,136,680, \$2,010,153, and \$1,819,112, respectively, which is equal to the required contribution for the year.

The School District's contributions to the MPSERS Defined Contribution Plan were \$13,129 and \$5,892 for the years ended June 30, 2014 and 2013, respectively.

### **Post Employment Benefits**

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

## **NOTE K - COMMITMENTS AND CONTINGENCIES**

### ***Capital Projects***

The 2012 Capital Projects Fund accounts for activity related to re-equipping and refurbishing School District buildings; including educational technology improvements. For this capital project, the School District has complied with the applicable provisions of Section 1351a for the Revised School Code. The project for which the 2012 bonds were issued has not been completed as of June 30, 2014. The remaining fund balance in the 2012 Capital Projects Fund as of June 30, 2014 was \$775,815.

### ***Federal and State Grants***

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

### ***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Benzie County Central School District Education Association. The Board of Education and the Benzie County Central School District Education Association have a contract for June 30, 2012 through August 31, 2016.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for September 1, 2013 through August 31, 2015.

**REQUIRED SUPPLEMENTARY INFORMATION**



## Benzie County Central School District

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variances - Positive (Negative)	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
<b>Revenues</b>					
Local and intermediate sources	\$ 7,027,122	\$ 6,818,953	\$ 6,612,225	\$ (208,169)	\$ (206,728)
State revenues	5,962,783	6,198,886	6,198,893	236,103	7
Federal revenues	559,975	524,069	524,070	(35,906)	1
Other	<u>259,444</u>	<u>361,281</u>	<u>591,020</u>	<u>101,837</u>	<u>229,739</u>
Total revenues	<u>13,809,324</u>	<u>13,903,189</u>	<u>13,926,208</u>	<u>93,865</u>	<u>23,019</u>
<b>Expenditures</b>					
Instruction	8,526,998	8,570,887	8,567,267	(43,889)	3,620
Supporting Services	5,165,288	5,300,670	5,262,096	(135,382)	38,574
Community Services	-	3,992	3,990	(3,992)	2
Debt Service	205,896	199,696	199,695	6,200	1
Other	<u>12,073</u>	<u>13,667</u>	<u>13,667</u>	<u>(1,594)</u>	<u>-</u>
Total expenditures	<u>13,910,255</u>	<u>14,088,912</u>	<u>14,046,715</u>	<u>(178,657)</u>	<u>42,197</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(100,931)	(185,723)	(120,507)	(84,792)	65,216
<b>Other financing uses</b>					
Operating transfers out	<u>-</u>	<u>(17,728)</u>	<u>-</u>	<u>(17,728)</u>	<u>17,728</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(100,931)	(203,451)	(120,507)	(102,520)	82,944
Fund balance, beginning of year	<u>1,287,701</u>	<u>1,287,701</u>	<u>1,287,701</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,186,770</u>	<u>\$ 1,084,250</u>	<u>\$ 1,167,194</u>	<u>\$ (102,520)</u>	<u>\$ 82,944</u>

**COMBINING FINANCIAL STATEMENTS OF  
NON-MAJOR GOVERNMENTAL FUNDS**

# Benzie County Central School District

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2014

	Special Revenue Fund	Debt Service Funds		Total Non-Major Governmental
	Food Service	2005 Refunding Bond	2012 Bus and Tech Bond	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,986	\$ 178,715	\$ 44,236	\$ 230,937
Other receivables	-	-	1,349	1,349
Intergovernmental receivables	32,238	8,738	-	40,976
Inventory	<u>11,693</u>	<u>-</u>	<u>-</u>	<u>11,693</u>
 Total assets	 <u>\$ 51,917</u>	 <u>\$ 187,453</u>	 <u>\$ 45,585</u>	 <u>\$ 284,955</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 32,074	\$ -	\$ -	\$ 32,074
Due to other funds	<u>17,728</u>	<u>-</u>	<u>-</u>	<u>17,728</u>
 Total liabilities	 <u>49,802</u>	 <u>-</u>	 <u>-</u>	 <u>49,802</u>
<b>FUND BALANCES</b>				
Nonspendable - inventory	11,693	-	-	11,693
Restricted				
Debt retirement	-	187,453	45,585	233,038
Unassigned (deficit)	<u>(9,578)</u>	<u>-</u>	<u>-</u>	<u>(9,578)</u>
 Total fund balances	 <u>2,115</u>	 <u>187,453</u>	 <u>45,585</u>	 <u>235,153</u>
 Total liabilities and fund balances	 <u>\$ 51,917</u>	 <u>\$ 187,453</u>	 <u>\$ 45,585</u>	 <u>\$ 284,955</u>

## Benzie County Central School District

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

Year Ended June 30, 2014

Revenues	<u>Special</u>	<u>Debt Service Funds</u>		Total Non-Major Governmental
	<u>Revenue Fund</u>	2005	2012	
	<u>Food Service</u>	<u>Refunding Bond</u>	<u>Bus and Tech Bond</u>	
Property taxes	\$ -	\$ 1,083,229	\$ 168,419	\$ 1,251,648
Interest	122	1,120	-	1,242
State revenues	26,008	-	-	26,008
Federal revenues	452,417	-	-	452,417
Other	<u>190,805</u>	<u>-</u>	<u>-</u>	<u>190,805</u>
Total revenues	<u>669,352</u>	<u>1,084,349</u>	<u>168,419</u>	<u>1,922,120</u>
Expenditures				
Food Service	665,237	-	-	665,237
Debt Service				
Principal	-	870,000	110,000	980,000
Interest	-	246,540	45,798	292,338
Other	-	763	150	913
Capital outlay	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Total expenditures	<u>667,237</u>	<u>1,117,303</u>	<u>155,948</u>	<u>1,940,488</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	2,115	(32,954)	12,471	(18,368)
Fund balance, beginning of year	<u>-</u>	<u>220,407</u>	<u>33,114</u>	<u>253,521</u>
Fund balance, end of year	<u>\$ 2,115</u>	<u>\$ 187,453</u>	<u>\$ 45,585</u>	<u>\$ 235,153</u>

## **FEDERAL PROGRAMS**

## Benzie County Central School District

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2013	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2014
U.S. Department of Education							
Passed through Michigan Department of Education							
Title I Part A Cluster Grants - Educationally Deprived							
111530-1213	84.010	\$ 442,773	\$ -	\$ 442,773	\$ -	\$ -	\$ -
141530-1314	84.010	<u>455,728</u>	<u>-</u>	<u>-</u>	<u>308,108</u>	<u>415,868</u>	<u>107,760</u>
Total Title I Part A Cluster - Educationally Deprived		<u>898,501</u>	<u>-</u>	<u>442,773</u>	<u>308,108</u>	<u>415,868</u>	<u>107,760</u>
Title IIA - Improving Teacher Quality							
110520-1213	84.367	81,725	-	81,725	-	-	-
140520-1314	84.367	<u>94,473</u>	<u>-</u>	<u>-</u>	<u>73,568</u>	<u>94,473</u>	<u>20,905</u>
Total Title IIA - Improving Teacher Quality		<u>176,198</u>	<u>-</u>	<u>81,725</u>	<u>73,568</u>	<u>94,473</u>	<u>20,905</u>
Title VIB - Rural and Low Income Grant							
120660-1213	84.358	<u>34,329</u>	<u>-</u>	<u>34,329</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total passed through Michigan Department of Education		<u>1,109,028</u>	<u>-</u>	<u>558,827</u>	<u>381,676</u>	<u>510,341</u>	<u>128,665</u>
Passed through Traverse Bay Area ISD							
Special Education Cluster							
Pre-school 11460-1213	84.173A	\$ -	\$ -	\$ 11,648	\$ -	\$ -	\$ -
Pre-school 130460-1314	84.173A	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,352</u>	<u>11,352</u>	<u>-</u>
Total passed through Traverse Bay Area ISD		<u>-</u>	<u>-</u>	<u>11,648</u>	<u>11,352</u>	<u>11,352</u>	<u>-</u>
Total U.S. Department of Education		<u>1,109,028</u>	<u>-</u>	<u>570,475</u>	<u>393,028</u>	<u>521,693</u>	<u>128,665</u>

## Benzie County Central School District

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2013	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2014
U.S. Department of Agriculture Nutrition Cluster Passed through Michigan Department of Education National School Lunch Program							
1970-Breakfast	10.553	-	-	102,372	81,339	81,339	-
1960-Free and Reduced	10.555	-	-	363,540	326,619	326,619	-
1980-Snacks	10.555	-	-	4,761	5,235	5,235	-
USDA Commodities - Bonus	10.555	\$ -	\$ -	\$ 192	\$ -	\$ -	\$ -
USDA Commodities - Entitlement	10.555	-	-	50,988	39,224	39,224	-
		-	-	419,481	371,078	371,078	-
Total U.S. Department of Agriculture		-	-	521,853	452,417	452,417	-
U.S. Department of Health and Human Services Passed through Traverse Bay Area ISD Medicaid - School Based Services	93.778	-	-	2,441	2,377	2,377	-
Total Federal Financial Assistance		\$ 1,109,028	\$ -	\$ 1,094,769	\$ 847,822	\$ 976,487	\$ 128,665

# Benzie County Central School District

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	\$ <u>976,487</u>
Federal sources per financial statements	\$ <u>976,487</u>





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**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  
Benzie County Central School District

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 the **Benzie County Central School District** (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's 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 described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2014-1 and 2014-2 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's 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*.

### **School District's Response to Findings**

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

October 6, 2014



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Education  
Benzie County Central School District

**Report on Compliance for Each Major Federal Program**

We have audited the *Benzie County Central School District* (the "School District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major Federal programs for the year ended June 30, 2014. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

# Benzie County Central School District

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2014

### PRIOR YEAR

See current year findings in section 2 for a repeat of all prior year findings. There is no change in their status.

### CURRENT YEAR

#### *Section 1 - Summary of Auditors' Results*

1. The auditor's report represents an unqualified opinion on the financial statements of the Benzie County Central School District.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with *Governmental Auditing Standards*.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any material weaknesses in internal control over major programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major programs were the Nutrition Cluster (CFDA No. 10.553 and 10.555) and Title I Part A (CFDA No. 84.010).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Benzie County Central School District did not qualify as a low risk auditee.

***Section 2 - Findings in Accordance with Governmental Auditing Standards***

**Finding Number 2014-1** (repeat)

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

**Condition:** As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

**Cause:** This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

**Effect:** As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

**Management's Response:** The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

***Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued***

**Finding Number 2014-2** (repeat)

**Criteria:** Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

**Condition:** The School District has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

**Cause:** The small size of the business office staff creates an inherent lack of segregation of duties.

**Effect:** As a result of this condition, the School District lacks a thorough segregation of duties and is exposed to the risk of material misstatement of its financial statements.

**Management's Response:** The School District has evaluated the manner in which they segregate duties and has implemented measures such as Board review of all expenditures and Board President signature of all checks written over \$5,000. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

***Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133***

No findings or questioned costs.