

Benzie County Central School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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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, 2016. 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

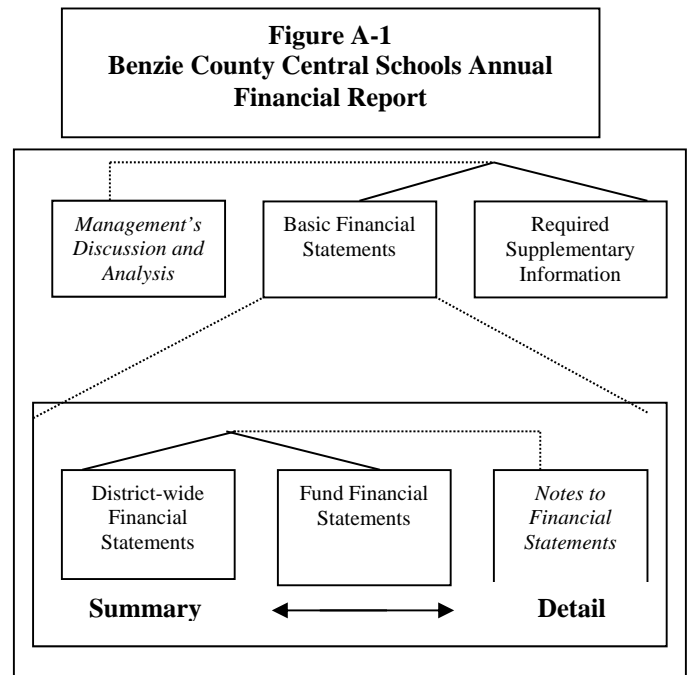
- The District continued to be challenged by declining enrollment, decreased revenues and increasing expenditures.
- Although the foundation grant increased by \$265/pupil from \$7,126/pupil to \$7,391/pupil. Blended enrollment decreased by 90.6 FTEs compared to June 2015 (6/30/15 = 1,600.08 – 6/30/16 = 1,509.48).
- The District's contribution rate for employee retirement increased to 36.31%.

The BCCEA (Teachers) contract was settled through August 2017. The contract included a 0.5% step increase for 16/17. The BCCEA (Teachers), BCCESP Transportation, Paraprofessional/Clerical and Custodial contracts will require negotiations in the 2016/17 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.

Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	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* beginning net position increased from (\$14,689,909) to (\$14,493,379). The negative net position is a result of implementing GASB 68 during the 15-16. During the year, the net position increased by \$196,530.

	2015	2016
Current and other assets	\$ 3,538,912	\$ 3,740,393
Capital assets	9,466,647	8,786,434
Deferred outflows of resources	2,062,992	2,161,990
Total assets	15,068,551	14,688,817
Net pension obligation	18,321,117	20,846,995
Long-term debt outstanding	5,722,551	4,448,606
Other liabilities	3,689,385	3,817,544
Total liabilities	27,733,053	29,113,145
Deferred inflows of resources	2,025,407	69,051
Net position		
Invested in capital assets, net of related debt	2,886,035	3,380,277
Restricted	113,421	143,035
Unrestricted (Deficit)	(17,689,365)	(18,016,691)
Total net position	\$ (14,689,909)	\$ (14,493,379)

Change in Net Position - The District's financial position is the product of several independent factors. Overall, revenues and expenses both increased when compared to last year's data, resulting in an increase in net position. The change in net position for 15/16 is \$196,530 compared to \$171,284 for 14/15. A breakout of this \$196,530 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	2015	2016
Property Taxes		
Levied for general purposes	\$ 6,969,682	\$ 6,951,402
Levied for debt service	1,267,627	1,267,860
State School Aid - unrestricted	4,424,964	4,525,393
Grants & contributions not restricted	174,096	171,035
Gain on sale of property & equipment	-	4,155
Charges for services	227,311	205,330
Operating grants and contributions	2,918,370	3,265,658
Capital grants and contributions	-	-
State School Aid - unrestricted	-	-
Special Item - gain on disposal of assets	-	-
Investment and other	16,149	2,232
Total revenues	15,998,199	16,393,065
Expenses		
Instruction	8,736,675	9,043,213
Support services	5,193,670	5,311,529
Community services	2,612	75
Food services	648,374	650,815
Athletics	219,550	269,674
Other	105,325	32,497
Interest on long-term debt	225,318	162,038
Depreciation	695,391	726,694
Total expenses	15,826,915	16,196,535
Change in net position	\$ 171,284	\$ 196,530

District Governmental Activities

The District continued to maintain its sound financial planning and personnel management for the 15/16 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 \$1,001,469 (6.96% of expenditures). The non-spendable inventory of \$106,335 and assigned employee sick time and building improvements of \$163,606 and \$30,685, respectively, total \$380,626 compared to \$273,425 last year.

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 2015/16 school year totaled \$19,915,327, or \$179,064 less than 14/15. Technology equipment was 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.

	2015	2016
Buildings & improvements	\$ 16,400,699	\$ 16,400,699
Furniture & equipment	1,844,243	1,852,331
Buses & vehicles	1,849,449	1,662,297
Total	<u>\$ 20,094,391</u>	<u>\$ 19,915,327</u>
Increase/(Decrease)		\$ (179,064)

Long-term Debt

At year-end the District had \$5,703,606 in Long-Term Debt. (More detailed information about the District's long-term liabilities is presented in Note G, on page 19 of the audit.)

	2015	2016
General obligation debts (financed with property taxes)	\$ 4,260,000	\$ 3,220,000
Energy Conservation Bond	865,000	775,000
Tech/Bus Bond	1,655,000	1,545,000
Accumulated Sick & Vacation Leave	182,551	163,606
Total	<u>\$ 6,962,551</u>	<u>\$ 5,703,606</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:

- Enrollment continues to be the primary issue impacting Benzie School's financial position.

The 16/17 foundation allowance is set at \$7,511, an increase of \$120/pupil. The *preliminary blended* student count for the 2016/17 school year reflects a blended count of 1,546 an increase of 37 students compared to the 15/16 blended count of 1,509.48. At the 16/17 foundation rate of \$7,511/pupil, the 37 student increase represents a gain of \$277,907 to the District. The official count will not occur until October 2016, after this audit is published.

- The District's retirement contribution rate for 16/17 will increase to 36.42%, an increase of 0.54%.

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, 2016, 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, 2016, 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 31, 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 non-major 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 Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining non-major 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 non-major 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 4, 2016 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 4, 2016

Benzie County Central School District

STATEMENT OF NET POSITION

June 30, 2016

Governmental
Activities

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

Current assets

Cash and cash equivalents	\$ 2,384,931
Due from other governments	1,235,616
Inventory	<u>119,846</u>

Total current assets 3,740,393

Capital assets, net of accumulated depreciation 8,786,434

Total assets 12,526,827

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	100,498
Deferred outflows for pension obligation	<u>2,061,492</u>

Total assets and deferred outflows of resources \$ 14,688,817

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current liabilities

Accounts payable and due to other governments	\$ 1,681,152
State aid anticipation note payable	856,631
Accrued expenses	16,257
Unearned revenue	8,504
Current portion of long-term liabilities	<u>1,255,000</u>

Total current liabilities 3,817,544

Non-current portion of long-term liabilities 4,448,606

Net pension obligation 20,846,995

Total liabilities 29,113,145

DEFERRED INFLOWS OF RESOURCES - pension obligation

69,051

NET POSITION

Invested in capital assets, net of related debt 3,380,277

Restricted for
Debt service 143,035

Unrestricted (deficit) (18,016,691)

Total net position (14,493,379)

Total liabilities, deferred inflows of resources and net position \$ 14,688,817

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

Benzie County Central School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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	\$ 9,043,213	\$ -	\$ 2,783,684	\$ -	\$ (6,259,529)
Supporting services	5,311,529	-	-	-	(5,311,529)
Community services	75	-	-	-	(75)
Food service	650,815	153,209	481,974	-	(15,632)
Athletics	269,674	52,121	-	-	(217,553)
Other	32,497	-	-	-	(32,497)
Interest on long-term debt	162,038	-	-	-	(162,038)
Depreciation - unallocated	726,694	-	-	-	(726,694)
Total governmental activities	\$ 16,196,535	\$ 205,330	\$ 3,265,658	\$ -	(12,725,547)
General purpose revenues					
Property taxes					
Levied for general purposes					6,951,402
Levied for debt service					1,267,860
State school aid - unrestricted					4,525,393
Grants and contributions not restricted to specific program					171,035
Investment and other					2,232
Total general purpose revenues					12,917,922
Special item - gain on disposal of assets					4,155
Change in net position					196,530
Net position, beginning of year					(14,689,909)
Net position, end of year					\$ (14,493,379)

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

Benzie County Central School District
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,097,616	\$ 287,315	\$ 2,384,931
Intergovernmental receivable	1,216,874	18,742	1,235,616
Due from other funds	25,008	-	25,008
Inventory	106,335	13,511	119,846
Total assets	\$ 3,445,833	\$ 319,568	\$ 3,765,401
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and due to other governments	\$ 1,587,733	\$ 93,419	\$ 1,681,152
Unearned revenue	-	8,504	8,504
Due to other funds	-	25,008	25,008
State aid anticipation note payable	856,631	-	856,631
Total liabilities	2,444,364	126,931	2,571,295
FUND BALANCES			
Nonspendable - inventory	106,335	13,511	119,846
Restricted			
Debt retirement	-	159,292	159,292
Capital projects	-	33,345	33,345
Assigned - employee sick time	163,606	-	163,606
Assigned - building improvements	30,685	-	30,685
Unassigned (deficit)	700,843	(13,511)	687,332
Total fund balances	1,001,469	192,637	1,194,106
Total liabilities and fund balances	\$ 3,445,833	\$ 319,568	

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 \$19,968,768 and the accumulated depreciation is \$(11,182,334).

8,786,434

Deferred outflows of resources net of deferred inflows of resources for pension obligations is not a financial resource and, therefore, is not reported in governmental funds.

1,992,441

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	\$ 5,540,000	
Accrued interest on bonds	16,257	
Unamortized loss on bond refunding	(100,498)	
Accumulated leave liability	163,606	
Net pension obligation	20,846,995	(26,466,360)

Total net position - governmental activities \$ (14,493,379)

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

Benzie County Central School District

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

Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 6,951,402	\$ 1,267,860	\$ 8,219,262
Interest	1,926	298	2,224
State revenues	6,434,603	19,780	6,454,383
Federal revenues	473,753	462,194	935,947
Other	629,377	153,217	782,594
Total revenues	14,491,061	1,903,349	16,394,410
Expenditures			
Instruction	8,757,705	-	8,757,705
Supporting services	5,151,609	-	5,151,609
Community services	75	-	75
Food service	-	650,815	650,815
Athletics	269,674	-	269,674
Other	31,297	-	31,297
Debt service			
Principal	90,000	1,150,000	1,240,000
Interest	35,898	100,132	136,030
Other	-	1,200	1,200
Capital outlay	53,441	27,136	80,577
Total expenditures	14,389,699	1,929,283	16,318,982
REVENUES UNDER EXPENDITURES	101,362	(25,934)	75,428
Other financing sources (uses)			
Operating transfers in	-	16,011	16,011
Operating transfers out	(16,011)	-	(16,011)
Total other financing sources (uses)	(16,011)	16,011	-
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	85,351	(9,923)	75,428
Fund balance, beginning of year	916,118	202,560	1,118,678
Fund balance, end of year	<u>\$ 1,001,469</u>	<u>\$ 192,637</u>	<u>\$ 1,194,106</u>

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, 2016

Total Net Change in Fund Balances - Governmental Funds		\$ 75,428
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
	Capital outlays \$ 47,826	
	Depreciation expense <u>(726,694)</u>	(678,868)
<p>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.</p>		
	Proceeds \$ (5,500)	
	Gain <u>4,155</u>	(1,345)
Change in deferred outflows of resources, net of the change in deferred inflows or resources		2,094,256
<p>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 \$18,945.</p>		
		18,945
<p>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.</p>		
		1,240,000
<p>Net amortization of deferred loss on refunding.</p>		
		(38,902)
<p>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.</p>		
		12,894
Increase in net pension obligation		<u>(2,525,878)</u>
Changes in Net Position of Governmental Activities		<u>\$ 196,530</u>

Benzie County Central School District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>64,734</u>
LIABILITIES	
Due to student groups	\$ <u>64,734</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, 2016, the School District employs 80 professional staff and 77 non-professional staff, and has 1,582 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, 2016.

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.

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.

Capital Projects funds are used to account for financial resources to be used for the acquisition or improvement of capital assets.

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 of Resources

In addition to assets and liabilities, the statement of financial position includes separate elements for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The School District's items that qualify for reporting in this category, are the deferred loss on debt refunding reported in the government-wide statement of net position and items related to the pension obligation. 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. See Note J for details of deferred outflows and inflows related to the pension obligation.

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.

Pension Plan

For purposes of measuring the net position, 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 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.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures Over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2016, the School District was not in compliance with that provision as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 8,755,722	\$ 8,758,668	\$ (2,946)
Supporting services	5,456,305	5,473,761	(17,456)
Community services	-	75	(75)
Other	31,223	31,297	(74)

Deficit in Food Service Fund

The Food Service Fund shows a deficit in unassigned fund balance of \$13,511, 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, 2016, the School District's cash and investments include the following:

	<u>Cash and Equivalents</u>
Bank deposits	<u>\$ 2,449,665</u>

Bank Deposits

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

As of June 30, 2016, \$1,718,506 of the School District's bank balance of \$2,444,620 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 \$386 million and \$6 per \$1,000 of equalized commercial personal property value of \$7 million was levied for general operating purposes. For debt service purposes, \$1.68 per \$1,000 of total equalized property value of \$754 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, 2016 are as follows:

Due from the State of Michigan	
State Aid	\$ 1,164,948
Other receivables	<u>70,668</u>
	<u>\$ 1,235,616</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Buildings and improvements	\$ 16,400,699	\$ -	\$ -	\$ 16,400,699
Furniture and equipment	1,844,243	8,088	-	1,852,331
Buses and vehicles	<u>1,849,449</u>	<u>39,738</u>	<u>(226,890)</u>	<u>1,662,297</u>
Total depreciable assets	20,094,391	47,826	(226,890)	19,915,327
Less accumulated depreciation	(10,681,185)	(726,694)	225,545	(11,182,334)
Land	<u>53,441</u>	<u>-</u>	<u>-</u>	<u>53,441</u>
Total capital assets, net	<u>\$ 9,466,647</u>	<u>\$ (678,868)</u>	<u>\$ (1,345)</u>	<u>\$ 8,786,434</u>

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

Unallocated	<u>\$ (726,694)</u>
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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 ranging from 1.08% to 1.46% and are due August 22, 2016. Changes in State aid anticipation notes payable during the year ended June 30, 2016 were as follows:

<u>Beginning</u> <u>Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending</u> <u>Balance</u>
<u>\$ 949,987</u>	<u>\$ 3,175,000</u>	<u>\$ 3,268,356</u>	<u>\$ 856,631</u>

In August 2016 a \$2,600,000 State Aid anticipation note was secured for the 2016 - 2017 school year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2016 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	\$ 4,260,000	\$ -	\$ (1,040,000)	\$ 3,220,000	\$ 1,055,000
Energy conservation bonds	865,000	-	(90,000)	775,000	90,000
Technology and bus bonds	1,655,000	-	(110,000)	1,545,000	110,000
Accumulated leave liability	<u>182,551</u>	<u>-</u>	<u>(18,945)</u>	<u>163,606</u>	<u>-</u>
Long-term debt at June 30, 2016	<u>\$ 6,962,551</u>	<u>\$ -</u>	<u>\$ (1,258,945)</u>	<u>\$ 5,703,606</u>	<u>\$ 1,255,000</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, 2016, the School District's long-term debt consisted of the following:

\$4,260,000 2015 School District refunding general obligation bonds for the advance refunding of the School District's 2005 bond issue; due in annual installments of \$1,040,000 to \$1,095,000 through May 1, 2019; plus interest at a rate of 0.6% to 1.6%.	\$ 3,220,000
\$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.	775,000
\$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 1.55% to 2.75%.	<u>1,545,000</u>
Total bonds payable	5,540,000
Accumulated leave liability	<u>163,606</u>
Total long-term debt	<u>\$ 5,703,606</u>

Interest expense for the year ended June 30, 2016 was \$162,038 and interest paid was \$136,030.

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds and loans outstanding as of June 30, 2016 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,255,000	\$ 113,621
2018	1,275,000	97,411
2019	1,300,000	77,893
2020	1,310,000	53,955
2021	95,000	20,543
2022-2026	<u>305,000</u>	<u>25,523</u>
	<u>\$ 5,540,000</u>	<u>\$ 388,946</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.

Deferred Loss on Refunding

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization</u>	<u>Ending Balance</u>
Total deferred outflows	<u>\$ 139,400</u>	<u>\$ -</u>	<u>\$ (38,902)</u>	<u>\$ 100,498</u>

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, 2016, 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

NOTE 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	\$ 25,008	\$ -
Non-major Fund:		
Food Service Fund	<u>-</u>	<u>25,008</u>
	<u>\$ 25,008</u>	<u>\$ 25,008</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.

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

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Food Service Fund	<u>\$ 16,011</u>	General Fund	<u>\$ 16,011</u>

NOTE J - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System ("MPERS") 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 System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by the 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% to 1.50%. 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 members' 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.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the MPERS who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution ("DC") tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

NOTES TO FINANCIAL STATEMENTS - Continued

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2015 will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2015:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.0%	17.72-18.76%

NOTES TO FINANCIAL STATEMENTS - Continued

Required contributions to the pension plan from the School District were \$1,646,531 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$16,752, for the year ended June 30, 2016, which is equal to the pension expense recognized by the School District for the year.

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.

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

At June 30, 2016, the School District reported a liability of \$20,846,995 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2015, the School District's proportion was 0.08535%, which was an increase of .00217% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,881,809. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 69,051
Changes of assumptions	513,297	-
Net difference between projected and actual earnings on pension plan investments	106,407	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	445,082	-
School District contributions subsequent to the measurement date	<u>996,706</u>	<u>-</u>
Total	<u>\$ 2,061,492</u>	<u>\$ 69,051</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$996,706 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2017	\$ 178,290
2018	178,290
2019	150,452
2020	488,703

Actuarial Assumptions

Projection 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 actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

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

NOTES TO FINANCIAL STATEMENTS - Continued

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: 4.7158 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

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, 2015 are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short-Term Investment Pools	2.0	-
	100.0 %	

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

Discount Rate

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

Sensitivity of the 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 the discount rate of 8.0% (7.0% for the Hybrid 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:

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$ 26,877,120	\$ 20,846,995	\$ 15,763,352

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR"). The 2015 MPERS CAFR is available at: www.michigan.gov/mpers-cafr.

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

The School District reported \$206,156 and \$1,042 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

Required Supplemental Information - 10-Year Trend Information

<u>Schedule of School District's Proportionate Share of Net Pension Liability</u>		
	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.08535000 %	0.08318000 %
School District's proportionate share of net pension liability	\$ 20,846,995	\$ 18,321,117
School District's covered-employee payroll	7,173,152	7,140,891
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	34.409 %	38.976 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %	66.20 %

<u>Schedule of School District's Contributions</u>		
	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 1,646,531	\$ 1,554,496
School District contributions made to the Plan	<u>1,646,531</u>	<u>1,554,496</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 7,069,113	\$ 7,149,585
Contributions as a percentage of covered-employee payroll	23.29 %	21.74 %

Change of benefit terms: There were no changes of benefit terms in 2015.

Change of assumptions: There were no changes of benefit assumptions in 2015.

NOTE K - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Benzie County Central School District Education Association. The Board of Education and the Benzie County Central School District Education Association had a contract for June 30, 2014 through August 31, 2016. Negotiations are currently underway for a new contract.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2015 through August 31, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Benzie County Central School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	<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>
Revenues					
Local and intermediate sources	\$ 6,792,528	\$ 7,158,322	\$ 6,953,328	\$ 365,794	\$ (204,994)
State revenues	6,874,895	6,432,216	6,434,603	(442,679)	2,387
Federal revenues	519,522	472,779	473,753	(46,743)	974
Other	<u>372,446</u>	<u>421,631</u>	<u>629,377</u>	<u>49,185</u>	<u>207,746</u>
Total revenues	<u>14,559,391</u>	<u>14,484,948</u>	<u>14,491,061</u>	<u>(74,443)</u>	<u>6,113</u>
Expenditures					
Instruction	8,918,271	8,755,722	8,758,668	162,549	(2,946)
Supporting services	5,364,332	5,456,305	5,473,761	(91,973)	(17,456)
Community services	3,000	-	75	3,000	(75)
Debt service	125,898	125,898	125,898	-	-
Other	<u>20,948</u>	<u>31,223</u>	<u>31,297</u>	<u>(10,275)</u>	<u>(74)</u>
Total expenditures	<u>14,432,449</u>	<u>14,369,148</u>	<u>14,389,699</u>	<u>63,301</u>	<u>(20,551)</u>
REVENUES OVER (UNDER) EXPENDITURES	126,942	115,800	101,362	(11,142)	(14,438)
Other financing uses					
Operating transfers out	<u>-</u>	<u>(35,193)</u>	<u>(16,011)</u>	<u>(35,193)</u>	<u>19,182</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	126,942	80,607	85,351	(46,335)	4,744
Fund balance, beginning of year	<u>916,118</u>	<u>916,118</u>	<u>916,118</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,043,060</u>	<u>\$ 996,725</u>	<u>\$ 1,001,469</u>	<u>\$ (46,335)</u>	<u>\$ 4,744</u>

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

Benzie County Central School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Fund	Debt Service Funds		Capital Project Fund	Total Non-Major Governmental
	Food Service	2015 Refunding Bond	2012 Bus and Tech Bond	2012 Capital Projects	
ASSETS					
Cash and cash equivalents	\$ 94,678	\$ 126,065	\$ 33,227	\$ 33,345	\$ 287,315
Intergovernmental receivables	18,742	-	-	-	18,742
Inventory	13,511	-	-	-	13,511
Total assets	<u>\$ 126,931</u>	<u>\$ 126,065</u>	<u>\$ 33,227</u>	<u>\$ 33,345</u>	<u>\$ 319,568</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 93,419	\$ -	\$ -	\$ -	\$ 93,419
Unearned revenue	8,504	-	-	-	8,504
Due to other funds	25,008	-	-	-	25,008
Total liabilities	126,931	-	-	-	126,931
FUND BALANCES					
Nonspendable - inventory	13,511	-	-	-	13,511
Restricted					
Debt retirement	-	126,065	33,227	-	159,292
Capital projects	-	-	-	33,345	33,345
Unassigned (deficit)	(13,511)	-	-	-	(13,511)
Total fund balances	-	126,065	33,227	33,345	192,637
Total liabilities and fund balances	<u>\$ 126,931</u>	<u>\$ 126,065</u>	<u>\$ 33,227</u>	<u>\$ 33,345</u>	<u>\$ 319,568</u>

Benzie County Central School District

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

Year Ended June 30, 2016

	<u>Special Revenue Fund</u>	<u>Debt Service Funds</u>		<u>Capital Project Fund</u>	<u>Total Non-Major Governmental</u>
	<u>Food Service</u>	<u>2015 Refunding Bond</u>	<u>2012 Bus and Tech Bond</u>	<u>2012 Capital Projects</u>	
Revenues					
Property taxes	\$ -	\$ 1,116,980	\$ 150,880	\$ -	\$ 1,267,860
Interest	52	159	33	54	298
State revenues	19,780	-	-	-	19,780
Federal revenues	462,194	-	-	-	462,194
Other	153,209	-	-	8	153,217
	<u>635,235</u>	<u>1,117,139</u>	<u>150,913</u>	<u>62</u>	<u>1,903,349</u>
Total revenues					
Expenditures					
Food service	650,815	-	-	-	650,815
Debt service					
Principal	-	1,040,000	110,000	-	1,150,000
Interest	-	58,414	41,718	-	100,132
Other	-	925	275	-	1,200
Capital outlay	431	-	-	26,705	27,136
	<u>651,246</u>	<u>1,099,339</u>	<u>151,993</u>	<u>26,705</u>	<u>1,929,283</u>
Total expenditures					
REVENUES OVER (UNDER) EXPENDITURES	<u>(16,011)</u>	<u>17,800</u>	<u>(1,080)</u>	<u>(26,643)</u>	<u>(25,934)</u>
Other financing sources					
Operating transfers in	16,011	-	-	-	16,011
REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	<u>-</u>	<u>17,800</u>	<u>(1,080)</u>	<u>(26,643)</u>	<u>(9,923)</u>
Fund balance, beginning of year	<u>-</u>	<u>108,265</u>	<u>34,307</u>	<u>59,988</u>	<u>202,560</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 126,065</u>	<u>\$ 33,227</u>	<u>\$ 33,345</u>	<u>\$ 192,637</u>

FEDERAL PROGRAMS

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2015	Prior Year Expenditures	Current Year Receipts	Transfers	Current Year Expenditures	Accrued Revenue June 30, 2016
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I Part A Cluster Grants - Educationally Deprived								
151530-1415	84.010	\$ 416,519	\$ -	\$ 462,046	\$ -	\$ -	\$ -	\$ -
161530-1516	84.010	<u>375,855</u>	<u>-</u>	<u>-</u>	<u>375,855</u>	<u>91,593</u>	<u>467,448</u>	<u>-</u>
Total Title I Part A Cluster - Educationally Deprived		<u>792,374</u>	<u>-</u>	<u>462,046</u>	<u>375,855</u>	<u>91,593</u>	<u>467,448</u>	<u>-</u>
Title IIA - Improving Teacher Quality								
160250-1516 (transferred to Title I Part A)	84.367	<u>94,380</u>	<u>-</u>	<u>-</u>	<u>91,593</u>	<u>(91,593)</u>	<u>-</u>	<u>-</u>
Total passed through Michigan Department of Education		<u>886,754</u>	<u>-</u>	<u>462,046</u>	<u>467,448</u>	<u>-</u>	<u>467,448</u>	<u>-</u>
Passed through Traverse Bay Area ISD								
Special Education Cluster								
Pre-school 150460-1415	84.173A	-	-	13,926	-	-	-	-
Pre-school 160460-1516	84.173A	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,564</u>	<u>-</u>	<u>4,564</u>	<u>-</u>
Total passed through Traverse Bay Area ISD		<u>-</u>	<u>-</u>	<u>13,926</u>	<u>4,564</u>	<u>-</u>	<u>4,564</u>	<u>-</u>
Total U.S. Department of Education		<u>886,754</u>	<u>-</u>	<u>475,972</u>	<u>472,012</u>	<u>-</u>	<u>472,012</u>	<u>-</u>

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2015	Prior Year Expenditures	Current Year Receipts	Transfers	Current Year Expenditures	Accrued Revenue June 30, 2016
U.S. Department of Agriculture								
Nutrition Cluster								
Passed through Michigan Department of Education								
National School Lunch Program								
1970-Breakfast	10.553	\$ -	\$ -	\$ 88,791	\$ 117,123	\$ -	\$ 117,123	\$ -
1960 - Free and Reduced	10.555	-	-	298,804	298,475	-	298,475	-
1980 - Snacks	10.555	-	-	8,143	4,419	-	4,419	-
USDA Commodities - Entitlement	10.555	-	-	39,387	37,679	-	37,679	-
		-	-	346,334	340,573	-	340,573	-
0900 - Summer Food Service Program	10.559	-	-	5,865	4,072	-	4,072	-
1900 - Summer Food Service Program	10.559	-	-	598	426	-	426	-
		-	-	6,463	4,498	-	4,498	-
Total U.S. Department of Agriculture		-	-	441,588	462,194	-	462,194	-
U.S. Department of Health and Human Services								
Passed through Traverse Bay Area ISD								
Medicaid - School Based Services	93.778	-	-	1,946	1,741	-	1,741	-
Total Federal Financial Assistance		\$ 886,754	\$ -	\$ 919,506	\$ 935,947	\$ -	\$ 935,947	\$ -

Benzie County Central School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

- 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** The School District did not use the 10% de-minimis indirect cost rate allowed under the Uniform Guidance.
- Note 5** 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>\$ 935,947</u>
Federal sources per financial statements	<u>\$ 935,947</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, 2016, 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 4, 2016.

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.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs No. 2016-1 and 2016-2, that we consider 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 4, 2016



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. 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 federal statutes, and terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 major Federal programs for the year ended June 30, 2016.

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 the Uniform Guidance, 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dennis, Gartland & Niergarth

October 4, 2016

Benzie County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2016

PRIOR YEAR

See current year findings in section 2 for a repeat of prior year findings No. 2015-1 and 2015-2. There is no change in their status.

Finding Number 2015-3

Criteria: Reconciliation controls over the School District's cash receipts and disbursements for the high school trust and agency cash account is necessary to minimize the likelihood that fraud or errors could occur and not be detected on a timely basis.

Condition: The School District was not able to reconcile its high school trust and agency cash account in a timely manner.

Cause: The computer program used to perform the record keeping for the high school trust and agency cash crashed early in the year and the account remained unreconciled from that point in time until after year end.

Effect: As a result of this condition, the School District had to re-create a portion of the activity for the year and complete the account reconciliation for the remainder of the year. Once the reconciliation was complete, there was a difference noted that would have otherwise been caught had the reconciliation been performed timely.

Management's Response: The School District hired an outside accountant to complete the high school activity fund account reconciliation for the year using an updated accounting program that will be used for the next fiscal year. Investigation into the cause of the uncorrected difference was made and it was found to be a record-keeping error.

Current year status: A third party was hired to setup new accounting software to track and reconcile the trust and agency cash accounts. The School District now uses this software to record transactions and reconcile account activity regularly.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unmodified 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 program was Title I Part A (CFDA No. 84.010).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$750,000.
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 2016-1 (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 2016-2 (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 the Uniform Guidance

No findings or questioned costs.