# Benzie County Central School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

Dennis, Gartland & Niergarth

CONTENTS

**BENZIE CENTRAL**
**SCHOOLS**
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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, 2018. 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

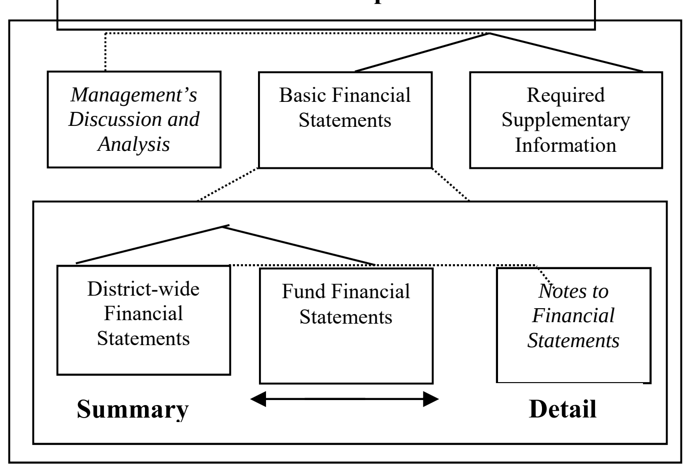
- The District continued to be challenged by declining enrollment.
- Although the foundation grant increased by $120/pupil from $7,511/pupil to $7,631/pupil. Blended enrollment decreased by 40.86 FTEs compared to June 2017 (6/30/17 = 1,540.34 – 6/30/18 = 1,499.48).
- The District's contribution rate for employee retirement increased to 36.88%.
- The District passed a sinking fund levy of 0.9 mills for a period of 10 years, 2017 to 2026, for the purchase of real estate for sites for, and the construction or repair of, school buildings, for school security improvements, and for the acquisition or upgrading of technology.
- The BCCEA (Teachers), BCCESP (Paraprofessionals), and BCCESP (Custodial) contracts are settled through August 2020. The BCCEA (Teachers) contract includes a 1% with steps increase in 18/19, and a 1.5% with steps increase in 19/20. The Paraprofessionals contract includes a 10 cent increase with steps in 18/19, and a 10 cent increase with steps in 19/20. The Custodial contract includes a 1% with steps increase in 18/19, and a 1.5% with steps increase in 19/20. The BCCESP (Transportation) was settled through August 2019. The contract includes a 1.5% with steps increase in 18/19. The BCCESP (Secretarial) contract was settled through June 2021. The contract included a rearrangement of their salary schedule and a $3.00/per day increase to unused sick day payout but a decrease to the number that can accumulate from 180 to 150.

### 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.

**Figure A-1**
**Benzie County Central Schools Annual Financial Report**



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 | Fund Financial Statements: 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<br>* Statement of activities | * Balance sheet<br>* Statement of revenues, expenditures and changes in fund balances | * Statement of fiduciary net position<br>* 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 decreased from ($13,701,130) to ($21,163,951) as a result of implementing GASB 75. During the year, the net position increased by $2,079,382.

**Table A-3**
**BCCS's Net Position**

| | 2017 | 2018 |
|---|---|---|
| Current and other assets | $ 3,257,517 | $ 4,810,708 |
| Capital assets | 8,641,945 | 8,458,024 |
| Deferred outflows of resources | 2,374,052 | 4,155,194 |
| Total assets | 14,273,514 | 17,423,926 |
| Net pension obligation | 20,734,626 | 21,598,274 |
| Net OPEB obligation | - | 7,390,077 |
| Long-term debt oustanding | 3,193,996 | 1,871,358 |
| Other liabilities | 3,565,871 | 3,944,042 |
| Total liabilities | 27,494,493 | 34,803,751 |
| Deferred inflows of resources | 480,151 | 1,704,744 |
| Net position | | |
| Invested in capital assets, net of related debt | 4,450,994 | 5,470,718 |
| Restricted | 133,209 | 580,820 |
| Unrestricted (Deficit) | (18,285,333) | (25,136,107) |
| Total net position | $ (13,701,130) | $ (19,084,569) |

**Change in Net Position** - The District's financial position is the product of several independent factors. Overall, revenues and expenses both decreased when compared to last year's data, resulting in an increase in net position. The change in net position for 17/18 is $2,079,382 compared to $545,781 for 16/17. A breakout of this $2,079,382 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.

**Table A-4**
**Changes in BCCS's Net Position**

| | 2017 | 2018 |
|---|---|---|
| Revenues | | |
| Property Taxes | | |
| Levied for general purposes | $ 7,018,976 | $ 7,145,142 |
| Levied for debt service | 1,228,482 | 1,258,523 |
| Levied for sinking fund | | 707,253 |
| State School Aid - unrestricted | 4,410,977 | 4,206,902 |
| Grants & contributions not restricted | 264,284 | 131,095 |
| Charges for services | 196,932 | 216,272 |
| Operating grants and contributions | 3,190,384 | 3,380,487 |
| Capital grants and contributions | - | - |
| Special Item - gain (loss) on disposal of assets | (7,618) | - |
| Investment and other | 15,877 | 33,351 |
| Total revenues | 16,318,294 | 17,079,025 |
| Expenses | | |
| Instruction | 8,785,408 | 8,474,772 |
| Support services | 5,309,118 | 4,939,685 |
| Community services | 18,450 | - |
| Food services | 635,401 | 594,947 |
| Athletics | 240,002 | 229,503 |
| Other | 35,071 | 38,456 |
| Interest on long-term debt | 150,132 | 133,389 |
| Depreciation | 598,931 | 588,891 |
| Total expenses | 15,772,513 | 14,999,643 |
| Change in net position | $ 545,781 | $ 2,079,382 |
| Net position, beginning of the year, *as restated* | (14,246,911) | (21,163,951) |
| Net position, end of the year | $ (13,701,130) | $ (19,084,569) |

## District Governmental Activities

The District continued to maintain its sound financial planning and personnel management for the 17/18 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 $1,512,831 (11.04% of expenditures). The non-spendable inventory and prepaid expenditures of $80,711 and $10,939, respectively, and assigned employee sick time of $161,358 total $253,008 compared to $242,645 last year.

### General Fund Budgetary Highlights

Over the course of the year, the District revises the annual operating budget periodically. 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 2017/18 school year totaled $20,060,797 or $125,251 more than 2016/17. A new and improved athletic track was installed. For more details, see Note F, on page 18 of the audit.

| | 2017 | 2018 |
|---|---|---|
| Buildings & improvements | $ 16,597,964 | $ 16,636,257 |
| Furniture & equipment | 1,852,331 | 1,903,662 |
| Buses & vehicles | 1,485,251 | 1,520,878 |
| Total | $ 19,935,546 | $ 20,060,797 |

### Long-term Debt

At year-end the District had $3,171,358 in Long-Term Debt. (More detailed information about the District's long-term liabilities is presented in Note H, on page 19 of the audit.)

**Table A-6**
**BCCS's Outstanding Long-Term Debt**

| | 2017 | 2018 |
|---|---|---|
| General obligation debts (financed with property taxes) | $ 2,165,000 | $ 1,095,000 |
| Energy Conservation Bond | 685,000 | 590,000 |
| Tech/Bus Bond | 1,435,000 | 1,325,000 |
| Accumulated Sick & Vacation Leave | 183,996 | 161,358 |
| Total | $ 4,468,996 | $ 3,171,358 |

## 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 18/19 foundation allowance is set at $7,871, an increase of $240/pupil. The ***preliminary blended*** student count for the 2018/19 school year reflects a blended count of 1,470.34 a decrease of 29 students compared to the 2017/18 blended count of 1,499.48. At the 18/19 foundation rate of $7,871/pupil, the 29 student decrease represents a loss of $228,259 to the District. The official count will not occur until October 2018, after this audit is published.

- The District's retirement contribution rate for 18/19 will increase to 38.39%, an increase of 1.51%.

- The sinking fund millage passed in 16/17 is expected to generate approximately $695,000 in revenue for the District in 18/19.

## 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, 9300 Homestead Rd, Benzonia MI 49616.

DENNIS, GARTLAND & NIERGARTH

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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, 2018, 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, 2018, 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.

***Emphasis of Matter***

*Accounting Change*

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, during the year ended June 30, 2018.

***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*, Budgetary Comparison Information on page 37 and Pension Schedules on page 44, 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 September 21, 2018 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

September 21, 2018

# Benzie County Central School District

STATEMENT OF NET POSITION

June 30, 2018

| | Governmental Activities |
|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | |
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents | $ 3,493,277 |
| Due from other governments | 1,131,337 |
| Prepaid expenditures | 85,939 |
| Other receivables | 6,299 |
| Inventory | 93,856 |
| Total current assets | 4,810,708 |
| Capital assets, net of accumulated depreciation | 8,458,024 |
| Total assets | 13,268,732 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred loss on refunding | 22,694 |
| Deferred outflows for pension obligation | 3,727,338 |
| Deferred outflows for OPEB obligation | 405,162 |
| Total assets and deferred outflows of resources | $ 17,423,926 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION** | |
| **LIABILITIES** | |
| Current liabilities | |
| Accounts payable | $ 48,003 |
| State aid anticipation note payable | 1,392,859 |
| Salaries payable and related liabilities | 1,178,709 |
| Accrued expenses | 10,942 |
| Unearned revenue | 13,529 |
| Current portion of long-term liabilities | 1,300,000 |
| Total current liabilities | 3,944,042 |
| Non-current portion of long-term liabilities | 1,871,358 |
| Net pension obligation | 21,598,274 |
| Net OPEB obligation | 7,390,077 |
| Total liabilities | 34,803,751 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows for pension obligation | 1,454,905 |
| Deferred inflows for OPEB obligation | 249,839 |
| Total deferred inflows of resources | 1,704,744 |
| **NET POSITION** | |
| Invested in capital assets, net of related debt | 5,470,718 |
| Restricted for | |
| Capital projects | 428,888 |
| Debt service | 151,932 |
| Unrestricted (deficit) | (25,136,107) |
| Total net position | (19,084,569) |
| Total liabilities, deferred inflows of resources and net position | $ 17,423,926 |

# Benzie County Central School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

| Functions/Program | Expenses | Program Revenues: Charges For Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Instruction | $ 8,474,772 | $ - | $ 2,903,269 | $ - | $ (5,571,503) |
| Supporting services | 4,939,685 | - | - | - | (4,939,685) |
| Food service | 594,947 | 163,745 | 477,218 | - | 46,016 |
| Athletics | 229,503 | 52,527 | - | - | (176,976) |
| Other | 38,456 | - | - | - | (38,456) |
| Interest on long-term debt | 133,389 | - | - | - | (133,389) |
| Depreciation - unallocated | 588,891 | - | - | - | (588,891) |
| Total governmental activities | $ 14,999,643 | $ 216,272 | $ 3,380,487 | $ - | (11,402,884) |
| General purpose revenues | | | | | |
| Property taxes | | | | | |
| Levied for general purposes | | | | | 7,145,142 |
| Levied for debt service | | | | | 1,258,523 |
| Levied for sinking fund | | | | | 707,253 |
| State school aid - unrestricted | | | | | 4,206,902 |
| Grants and contributions not restricted to specific program | | | | | 131,095 |
| Investment and other | | | | | 33,351 |
| Total general purpose revenues | | | | | 13,482,266 |
| Change in net position | | | | | 2,079,382 |
| Net position, beginning of year, *as restated* | | | | | (21,163,951) |
| Net position, end of year | | | | | $ (19,084,569) |

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

# Benzie County Central School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 2,814,102 | $ 679,175 | $ 3,493,277 |
| Prepaid expenditures | 10,939 | 75,000 | 85,939 |
| Other receivables | 6,299 | - | 6,299 |
| Intergovernmental receivable | 1,127,080 | 4,257 | 1,131,337 |
| Due from other funds | 75,918 | - | 75,918 |
| Inventory | 80,711 | 13,145 | 93,856 |
| Total assets | $ 4,115,049 | $ 771,577 | $ 4,886,626 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **LIABILITIES** | | | |
| Accounts payable | $ 30,650 | $ 17,353 | $ 48,003 |
| Salaries payable and related liabilities | 1,178,709 | - | 1,178,709 |
| Unearned revenue | - | 13,529 | 13,529 |
| Due to other funds | - | 75,918 | 75,918 |
| State aid anticipation note payable | 1,392,859 | - | 1,392,859 |
| Total liabilities | 2,602,218 | 106,800 | 2,709,018 |
| **FUND BALANCES** | | | |
| Nonspendable - inventory and prepaid expenditures | 91,650 | 88,145 | 179,795 |
| Restricted | | | |
| Debt retirement | - | 162,874 | 162,874 |
| Capital projects | - | 428,888 | 428,888 |
| Assigned - employee sick time | 161,358 | - | 161,358 |
| Unassigned | 1,259,823 | (15,130) | 1,244,693 |
| Total fund balances | 1,512,831 | 664,777 | 2,177,608 |
| Total liabilities and fund balances | $ 4,115,049 | $ 771,577 | |

**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 $20,307,144 and the accumulated depreciation is $(11,849,120). | | 8,458,024 |
| Deferred outflows of resources net of deferred inflows of resources for pension obligations of $2,272,433 and OPEB obligations of $155,323 are not a financial resource and, therefore, are not reported in governmental funds. | | 2,427,756 |
| 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 | $ 3,010,000 | |
| Accrued interest on bonds | 10,942 | |
| Unamortized loss on bond refunding | (22,694) | |
| Accumulated leave liability | 161,358 | |
| Net pension obligation | 21,598,274 | |
| Net OPEB obligation | 7,390,077 | (32,147,957) |
| Total net position - governmental activities | | $ (19,084,569) |

# Benzie County Central School District

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

Year Ended June 30, 2018

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Revenues | | | |
| Property taxes | $ 7,145,142 | $ 1,965,776 | $ 9,110,918 |
| Interest | 21,551 | 5,901 | 27,452 |
| State revenues | 6,436,463 | 26,824 | 6,463,287 |
| Federal revenues | 401,420 | 450,394 | 851,814 |
| Other | 455,911 | 169,643 | 625,554 |
| Total revenues | 14,460,487 | 2,618,538 | 17,079,025 |
| Expenditures | | | |
| Instruction | 8,360,494 | - | 8,360,494 |
| Supporting services | 4,845,331 | - | 4,845,331 |
| Food service | - | 594,947 | 594,947 |
| Athletics | 229,503 | - | 229,503 |
| Other | 34,806 | 587 | 35,393 |
| Debt service | | | |
| Principal | 95,000 | 1,180,000 | 1,275,000 |
| Interest | 28,428 | 68,983 | 97,411 |
| Other | - | 3,063 | 3,063 |
| Capital outlay | 106,946 | 333,841 | 440,787 |
| Total expenditures | 13,700,508 | 2,181,421 | 15,881,929 |
| **REVENUES OVER EXPENDITURES** | 759,979 | 437,117 | 1,197,096 |
| Fund balance, beginning of year | 752,852 | 227,660 | 980,512 |
| Fund balance, end of year | $ 1,512,831 | $ 664,777 | $ 2,177,608 |

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, 2018

| | | | |
|---|---|---|---|
| **Total Net Change in Fund Balances - Governmental Funds** | | | $ 1,197,096 |
| Amounts reported for governmental activities in the statement of activities are different because: | | | |
| Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period. | | | |
| | Capital outlays | $ 404,970 | |
| | Depreciation expense | (588,891) | (183,921) |
| Change in deferred outflows of resources, net of the change in deferred inflows or resources | | | 263,378 |
| 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 greater than the amounts paid by $(22,638). | | | 22,638 |
| Repayment of bond principal is an expenditure or other financing use in the governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities. | | | 1,275,000 |
| Net amortization of deferred loss on refunding. | | | (38,902) |
| 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. | | | 2,924 |
| Increase in net pension obligation | | | (863,648) |
| Decrease in net OPEB obligation | | | 404,817 |
| **Changes in Net Position of Governmental Activities** | | | $ 2,079,382 |

# Benzie County Central School District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 74,452 |
| **LIABILITIES** | |
| Due to student groups | $ 74,452 |

The accompanying notes are an integral part of these 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, 2018, the School District employs 64 professional staff and 64 non-professional staff, and has 1,499 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, 2018.

***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. 61, 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.

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.

***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.

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

The 2017 Sinking fund records capital project activities funded with Sinking Fund millage. For this fund, the school district has complied with the applicable provisions of Section 1212 of the Revised School Code.

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.

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 and OPEB obligations. 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 K for details of deferred outflows and inflows related to the pension obligation, and Note L for the OPEB 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.

***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 ("MPSERS") and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

***Post-Employment Benefits Other than Pensions***

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System ("MPSERS") and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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 - ACCOUNTING CHANGES

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75 ("GASB 75"), *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, an amendment of GASB Statement No. 45. GASB 75 improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 75 requires employers to report net OPEB benefits as a liability in the statement of net position. GASB 75 requires immediate recognition of the OPEB expense, including annual service cost and interest, and the effect of changes in benefit terms on the net OPEB liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. GASB 75 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net OPEB liability.

The School District implemented GASB 75 during the year by retroactive restatement of June 30, 2017 net position, as follows:

| | |
|---|---|
| Net position at June 30, 2017, *as originally stated* | $ (13,701,130) |
| Record net OPEB liability at June 30, 2017 | (7,462,821) |
| Net position at June 30, 2017, *as restated* | $ (21,163,951) |

## NOTE C - 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, 2018, the School District was not in compliance with that provision as follows:

| | Budget | Actual | Variance |
|---|---|---|---|
| General Fund | | | |
| Instruction | | | |
| Middle School | 1,391,213 | 1,391,251 | (38) |
| Vocation Ed | 130,821 | 133,719 | (2,898) |
| Supporting Services | | | |
| Board of Education | 66,952 | 66,966 | (14) |
| School Administration | 886,060 | 886,645 | (585) |
| Operations and Maintenance | 1,265,147 | 1,269,588 | (4,441) |
| Other | 33,007 | 34,806 | (1,799) |

## NOTE D - CASH AND INVESTMENTS

At June 30, 2018, the School District's cash and investments include the following:

| | Cash and Equivalents |
|---|---|
| Bank deposits | $ 3,567,729 |

***Bank Deposits***

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

As of June 30, 2018, $3,117,413 of the School District's bank balance of $3,701,430 was exposed to custodial credit risk because it was uninsured and uncollateralized.

## NOTE E - 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 $396 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, $1.60 per $1,000 of total equalized property value of $787 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, $0.90 per $1,000 of total equalized property value of $787 million was levied for the purchase of real estate sites for, and construction or repair of, school building, for school security improvements, and for the acquisition or upgrading of technology.

***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 expenditures have not been incurred.

Amounts due from other governments at June 30, 2018 are as follows:

| | |
|---|---|
| Due from the State of Michigan | |
| State Aid | $ 1,130,983 |
| Other receivables | 354 |
| | $ 1,131,337 |

## NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

| | June 30, 2017 | Adjustments | Additions | Retirements | June 30, 2018 |
|---|---|---|---|---|---|
| Buildings and improvements | $ 16,597,964 | $ - | $ 38,293 | $ - | $ 16,636,257 |
| Furniture and equipment | 1,852,331 | - | 64,456 | (13,125) | 1,903,662 |
| Buses and vehicles | 1,485,251 | - | 109,315 | (73,688) | 1,520,878 |
| Total depreciable assets | 19,935,546 | - | 212,064 | (86,813) | 20,060,797 |
| Less accumulated depreciation | (11,347,042) | - | (588,891) | 86,813 | (11,849,120) |
| Construction-in-process | - | - | 192,906 | - | 192,906 |
| Land | 53,441 | - | - | - | 53,441 |
| Total capital assets, net | $ 8,641,945 | $ - | $ (183,921) | $ - | $ 8,458,024 |

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

| | |
|---|---|
| Unallocated | $ (588,891) |

## NOTE G - 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 1.20% to 1.45% and are due August 20, 2018. Changes in State aid anticipation notes payable during the year ended June 30, 2018 were as follows:

| Beginning Balance | New Debt | Payments | Ending Balance |
|---|---|---|---|
| $ 970,287 | $ 3,150,000 | $ 2,727,428 | $ 1,392,859 |

In August 2018, a $2,925,000 State Aid anticipation note was secured for the 2018 - 2019 school year.

## NOTE H - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2018 were as follows:

| | Beginning Balance | New Debt | Payments/ Defeasance | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| General obligation bonds | $ 2,165,000 | $ - | $ (1,070,000) | $ 1,095,000 | $ 1,095,000 |
| Energy conservation bonds | 685,000 | - | (95,000) | 590,000 | 95,000 |
| Technology and bus bonds | 1,435,000 | - | (110,000) | 1,325,000 | 110,000 |
| Accumulated leave liability | 183,996 | - | (22,638) | 161,358 | - |
| Long-term debt at June 30, 2018 | $ 4,468,996 | $ - | $ (1,297,638) | $ 3,171,358 | $ 1,300,000 |

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, 2018, 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%. | $ 1,095,000 |
| $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. | 590,000 |
| $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%. | 1,325,000 |
| Total bonds payable | 3,010,000 |
| Accumulated leave liability | 161,358 |
| Total long-term debt | $ 3,171,358 |

Interest expense for the year ended June 30, 2018 was $133,389 and interest paid was $97,411.

Total annual requirements to amortize bonds and loans outstanding as of June 30, 2018 are as follows:

| Years Ending June 30, | Principal | Interest |
|---|---|---|
| 2019 | $ 1,300,000 | $ 77,893 |
| 2020 | 1,310,000 | 58,905 |
| 2021 | 95,000 | 25,493 |
| 2022 | 100,000 | 15,708 |
| 2023 | 100,000 | 15,965 |
| 2024-2027 | 105,000 | - |
| | $ 3,010,000 | $ 193,964 |

***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***

| | Beginning Balance | Additions | Amortization | Ending Balance |
|---|---|---|---|---|
| Total deferred outflows | $ 61,596 | $ - | $ (38,902) | $ 22,694 |

## NOTE I - 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, 2018, there were no significant unbilled claims.

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

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

## NOTE J - 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.

| Fund | Interfund Receivable | Interfund Payable |
|---|---|---|
| Major Fund: | | |
| General Fund | $ 75,918 | $ - |
| Non-major Fund: | | |
| Food Service Fund | - | 75,918 |
| | $ 75,918 | $ 75,918 |

## NOTE K - PENSION PLAN

***Plan Description***

The Michigan Public School Employees' Retirement System ("MPSERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The Board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available at www.michigan.gov/orsschools.

***Benefits Provided***

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% 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 member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

*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.

***Funding Policy***

*Defined Contribution Plan*

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

***Contributions***

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

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

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2017:

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

Required contributions to the pension plan from the School District were $1,954,887 for the year ended September 30, 2017.

The School District's contributions to the MPSERS Defined Contribution Plan were $38,272, for the year ended June 30, 2018, which is equal to the pension expense recognized by the School District for the year.

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

At June 30, 2018, the School District reported a liability of $21,598,274 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. 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, 2017, the School District's proportion was 0.08335%, which was a increase of 0.00024% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of $2,242,072. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 187,704 | $ 105,978 |
| Changes of assumptions | 2,366,263 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,032,540 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 249,729 | 316,387 |
| School District contributions subsequent to the measurement date | 923,642 | - |
| Total | $ 3,727,338 | $ 1,454,905 |

From the above table, $923,642 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

| Year Ended September 30, | Amount |
|---|---|
| 2018 | $ 396,845 |
| 2019 | 726,345 |
| 2020 | 264,769 |
| 2021 | (39,168) |
| | $ 1,348,791 |

***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, 2017 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return: | |
| MIP and Basic Plans (Non-Hybrid): | 7.5% |
| Pension Plus Plan (Hybrid): | 7.0% |
| Projected Salary Increases: | 3.5-12.3%, including wage inflation at 3.5% |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members |
| Mortality: | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

***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, 2017, are summarized in the following table:

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

**Long-term rate of return does not include 2.3% inflation.*

***Rate of Return***

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

***Discount Rate***

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

***Sensitivity of the 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 7.5% (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) (6.5% / 6.0%) | Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (7.5% / 7.0%) | 1% Increase (Non-Hybrid-Hybrid) (8.5% / 8.0%) |
|---|---|---|
| $ 28,135,367 | $ 21,598,274 | $ 16,094,458 |

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS Comprehensive Annual Financial Report ("CAFR"). The 2017 MPSERS CAFR is available at: www.michigan.gov/orsschools.

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

The School District reported $111,497 and $1,634 payable to the plan at June 30, 2018 for legally required defined benefit and defined contribution plan contributions, respectively.

## NOTE L - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

***Plan Description***

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

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

***Benefits Provided***

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

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

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

***Contributions***

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

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

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

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

Required contributions to the OPEB plan from the School District were $649,710 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of $7,390,077 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the systems during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.08345% percent, which equaled its proportion measured as of October 1, 2016.

For the year ended June 30, 2018, the School District recognized healthcare expense of $494,382. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 78,683 |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 171,156 |
| Changes in proportion and differences between School District contributions and proportionate share of contributions | 349 | - |
| School District contributions subsequent to the measurement date | 404,813 | - |
| Total | $ 405,162 | $ 249,839 |

From the above table, $404,813 contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended September 30, | Amount |
|---|---|
| 2018 | $ (60,296) |
| 2019 | (60,296) |
| 2020 | (60,296) |
| 2021 | (60,296) |
| 2022 | (8,306) |
| Total | $ (249,490) |

***Actuarial Assumptions***

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

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions*

| | |
|---|---|
| Valuation Date: | September 30, 2016 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return: | 7.5% |
| Projected Salary Increases: | 3.5-12.3%, including wage inflation at 3.5% |
| Healthcare Cost Trend Rate: | 7.5% Year 1 graded to 3.5% Year 12 |
| Mortality | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

*Other Assumptions*

| | |
|---|---|
| Opt Out Assumptions | 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan |
| Survivor Coverage | 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death |
| Coverage Election at Retirement | 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents. |

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744 for non-university employers
- Recognition period for assets in years is 5.0
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

***Long-Term Expected Rate of Return on Investments***

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

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

**Long-term rate of return does not include 2.3% inflation.*

***Rate of Return***

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

***Discount Rate***

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

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***

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

| 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|
| $ 8,655,917 | $ 7,390,077 | $ 6,315,776 |

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

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

| 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|
| $ 6,258,402 | $ 7,390,077 | $ 8,675,016 |

***OPEB Plan Fiduciary Net Position***

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

***Payables to the OPEB Plan***

The School District reported $47,784 payable to the Plan at June 30, 2018 for the OPEB liability.

## NOTE M - 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 have a contract for September 1, 2017 through August 31, 2018 and for September 1, 2018 through August 31, 2021.

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, 2016 through August 31, 2018 and for September 1, 2018 through August 31, 2021.

# REQUIRED SUPPLEMENTARY INFORMATION

# Benzie County Central School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2018

| | Budgeted Amounts | | | Variances - Positive (Negative) | |
|---|---|---|---|---|---|
| | Original | Final | Actual (GAAP Basis) | Original to Final | Final to Actual Total |
| Revenues | | | | | |
| Local and intermediate sources | $ 7,134,528 | $ 7,330,078 | $ 7,425,347 | $ 195,550 | $ 95,269 |
| State revenues | 6,201,446 | 6,438,451 | 6,436,463 | 237,005 | (1,988) |
| Federal revenues | 346,871 | 401,419 | 401,420 | 54,548 | 1 |
| Other | 281,801 | 289,348 | 197,257 | 7,547 | (92,091) |
| Total revenues | 13,964,646 | 14,459,296 | 14,460,487 | 494,650 | 1,191 |
| Expenditures | | | | | |
| Instruction | | | | | |
| Elementary | 2,888,190 | 2,822,860 | 2,817,289 | 65,330 | 5,571 |
| Middle School | 1,376,799 | 1,391,213 | 1,391,251 | (14,414) | (38) |
| High School | 1,920,663 | 1,919,820 | 1,918,492 | 843 | 1,328 |
| High School Alt Ed | 100,776 | 30,150 | 30,148 | 70,626 | 2 |
| Special Ed | 1,088,068 | 1,072,056 | 1,071,997 | 16,012 | 59 |
| At Risk | 509,626 | 637,597 | 637,595 | (127,971) | 2 |
| Title I | 287,755 | 296,391 | 296,390 | (8,636) | 1 |
| Bilingual Ed | - | 491 | 491 | (491) | - |
| Classroom Reduction | 121,099 | 66,616 | 66,613 | 54,483 | 3 |
| Vocation Ed | 131,281 | 130,821 | 133,719 | 460 | (2,898) |
| Total instruction | 8,424,257 | 8,368,015 | 8,363,985 | 56,242 | 4,030 |
| Supporting Services | | | | | |
| Guidance | 225,590 | 233,418 | 233,415 | (7,828) | 3 |
| Schools Improvement | 21,500 | 26,622 | 26,621 | (5,122) | 1 |
| Board of Education | 63,845 | 66,952 | 66,966 | (3,107) | (14) |
| Central Business | 293,644 | 306,797 | 306,795 | (13,153) | 2 |
| School Administration | 935,563 | 886,060 | 886,645 | 49,503 | (585) |
| Fiscal Services | 248,976 | 258,709 | 258,707 | (9,733) | 2 |
| Business Services | 90,058 | 96,346 | 96,345 | (6,288) | 1 |
| Operations and Maintenance | 1,359,375 | 1,265,147 | 1,269,588 | 94,228 | (4,441) |
| Transportation | 1,635,544 | 1,582,368 | 1,548,665 | 53,176 | 33,703 |
| Technology | 256,611 | 244,202 | 244,200 | 12,409 | 2 |
| Auditorium | 23,680 | 10,841 | 10,839 | 12,839 | 2 |
| Athletics | 240,273 | 232,008 | 229,503 | 8,265 | 2,505 |
| Total supporting services | 5,394,659 | 5,209,470 | 5,178,289 | 185,189 | 31,181 |
| Debt service | 118,428 | 123,428 | 123,428 | (5,000) | - |
| Other | 14,500 | 33,007 | 34,806 | (18,507) | (1,799) |
| Total expenditures | 13,951,844 | 13,733,920 | 13,700,508 | 217,924 | 33,412 |
| **REVENUES OVER EXPENDITURES** | 12,802 | 725,376 | 759,979 | 712,574 | 34,603 |
| Fund balance, beginning of year | 752,852 | 752,852 | 752,852 | - | - |
| Fund balance, end of year | $ 765,654 | $ 1,478,228 | $ 1,512,831 | $ 712,574 | $ 34,603 |

## Benzie County Central School District

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

Michigan Public School Employees Retirement Plan

| | 9/30/2017 | 9/30/2016 | 9/30/2015 | 9/30/2014 |
|---|---|---|---|---|
| School District's proportion of collective net pension liability | 0.08334516 % | 0.08310744 % | 0.08535000 % | 0.08318000 % |
| School District's proportionate share of net pension liability | $ 21,598,274 | $ 20,734,626 | $ 20,846,995 | $ 18,321,117 |
| School District's covered-employee payroll | 7,051,556 | 6,960,120 | 7,173,152 | 7,140,891 |
| School District's proportionate share of net pension liability as a percentage of covered-employee payroll | 306.29 % | 297.91 % | 290.63 % | 256.57 % |
| Plan fiduciary net position as a percentage of total pension liability | 64.21 % | 63.27 % | 63.17 % | 66.20 % |

SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

| | 6/30/2018 | 6/30/2017 | 6/30/2016 | 6/30/2015 |
|---|---|---|---|---|
| Statutorily required employer contributions | $ 1,177,400 | $ 1,355,838 | $ 1,646,531 | $ 1,554,496 |
| School District contributions made to the Plan | 1,177,400 | 1,355,838 | 1,646,531 | 1,554,496 |
| Contributions deficiency (excess) | $ - | $ - | $ - | $ - |
| School District's covered-employee payroll | $ 6,679,991 | $ 7,293,509 | $ 7,069,113 | $ 7,149,585 |
| Contributions as a percentage of covered-employee payroll | 17.63 % | 18.59 % | 23.29 % | 21.74 % |

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

# Benzie County Central School District

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY

Michigan Public School Employees Retirement Plan

| | 9/30/2017 |
|---|---|
| School District's proportion of collective net OPEB liability | 0.08345211 % |
| School District's proportionate share of net OPEB liability | $ 7,390,077 |
| School District's covered-employee payroll (OPEB) | 7,051,556 |
| School District's proportionate share of net OPEB liability as a percentage of covered-employee payroll | 104.80 % |
| Plan fiduciary net position as a percentage of total OPEB liability | 36.39 % |

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

| | 6/30/2018 |
|---|---|
| Statutorily required OPEB contributions | $ 484,084 |
| OPEB contributions in relation to statutorily required contributions | 484,084 |
| Contributions deficiency (excess) | $ - |
| School District's covered-employee payroll (OPEB) | $ 6,679,991 |
| OPEB contributions as a percentage of covered-employee payroll | 7.25 % |

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

# COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS

# Benzie County Central School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2018

| | Special Revenue Fund | Debt Service Funds | | Capital Project Fund | | |
|---|---|---|---|---|---|---|
| | Food Service | 2015 Refunding Bond | 2012 Bus and Tech Bond | 2012 Capital Projects | 2017 Sinking Fund | Total Non-Major Governmental |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 87,095 | $ 115,439 | $ 47,435 | $ - | $ 429,206 | $ 679,175 |
| Prepaid expenditures | 75,000 | - | - | - | - | 75,000 |
| Intergovernmental receivables | 4,257 | - | - | - | - | 4,257 |
| Inventory | 13,145 | - | - | - | - | 13,145 |
| Total assets | $ 179,497 | $ 115,439 | $ 47,435 | $ - | $ 429,206 | $ 771,577 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| **LIABILITIES** | | | | | | |
| Accounts payable | $ 17,035 | $ - | $ - | $ - | $ 318 | $ 17,353 |
| Unearned revenue | 13,529 | - | - | - | - | 13,529 |
| Due to other funds | 75,918 | - | - | - | - | 75,918 |
| Total liabilities | 106,482 | - | - | - | 318 | 106,800 |
| **FUND BALANCES** | | | | | | |
| Nonspendable - inventory and prepaid expenditures | 88,145 | - | - | - | - | 88,145 |
| Restricted | | | | | | |
| Debt retirement | - | 115,439 | 47,435 | - | - | 162,874 |
| Capital projects | - | - | - | - | 428,888 | 428,888 |
| Unassigned (deficit) | (15,130) | - | - | - | - | (15,130) |
| Total fund balances | 73,015 | 115,439 | 47,435 | - | 428,888 | 664,777 |
| Total liabilities and fund balances | $ 179,497 | $ 115,439 | $ 47,435 | $ - | $ 429,206 | $ 771,577 |

# Benzie County Central School District

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

Year Ended June 30, 2018

| | Special Revenue Fund | Debt Service Funds | | Capital Project Fund | | |
|---|---|---|---|---|---|---|
| | Food Service | 2015 Refunding Bond | 2012 Bus and Tech Bond | 2012 Capital Projects | 2017 Sinking Fund | Total Non-Major Governmental |
| **Revenues** | | | | | | |
| Property taxes | $ - | $1,101,208 | $ 157,315 | $ - | $ 707,253 | $ 1,965,776 |
| Interest | 523 | 2,925 | 499 | 207 | 1,747 | 5,901 |
| State revenues | 26,824 | - | - | - | - | 26,824 |
| Federal revenues | 450,394 | - | - | - | - | 450,394 |
| Other | 163,745 | 5,161 | 737 | - | - | 169,643 |
| Total revenues | 641,486 | 1,109,294 | 158,551 | 207 | 709,000 | 2,618,538 |
| **Expenditures** | | | | | | |
| Food service | 594,947 | - | - | - | - | 594,947 |
| Other | - | - | - | 450 | 137 | 587 |
| Debt service | | | | | | |
| Principal | - | 1,070,000 | 110,000 | - | - | 1,180,000 |
| Interest | - | 30,895 | 38,088 | - | - | 68,983 |
| Other | - | 2,743 | 320 | - | - | 3,063 |
| Capital outlay | 21,656 | - | - | 32,210 | 279,975 | 333,841 |
| Total expenditures | 616,603 | 1,103,638 | 148,408 | 32,660 | 280,112 | 2,181,421 |
| **REVENUES OVER EXPENDITURES** | 24,883 | 5,656 | 10,143 | (32,453) | 428,888 | 437,117 |
| Fund balance, beginning of year | 48,132 | 109,783 | 37,292 | 32,453 | - | 227,660 |
| Fund balance, end of year | $ 73,015 | $ 115,439 | $ 47,435 | $ - | $ 428,888 | $ 664,777 |

# FEDERAL PROGRAMS

# Benzie County Central School District

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### Year Ended June 30, 2018

| Federal Grantor/ Pass-Through Grantor Program Title | CFDA Number | Original Approved Award/Grant Amount | Accrued Revenue June 30, 2017 | Prior Year Expenditures | Current Year Receipts | Transfers | Current Year Expenditures | Accrued Revenue June 30, 2018 |
|---|---|---|---|---|---|---|---|---|
| U.S. Department of Education | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | |
| Title I Part A Cluster Grants - Educationally Deprived | | | | | | | | |
| 181530-1718 | 84.010 | $ 309,264 | $ - | $ - | $ 307,920 | $ 70,829 | $ 378,749 | $ - |
| Title IIA - Improving Teacher Quality | | | | | | | | |
| 180520-1718 (transferred to Title I Part A) | 84.367 | 88,164 | - | - | 70,829 | (70,829) | - | - |
| Title IV Part A Student Support and Academic Enrichment | | | | | | | | |
| 180750-1718 | 84.424 | 10,000 | - | - | 10,000 | - | 10,000 | - |
| Total passed through Michigan Department of Education | | 407,428 | - | - | 388,749 | - | 388,749 | - |
| Passed through Traverse Bay Area ISD | | | | | | | | |
| Special Education Cluster | | | | | | | | |
| Pre-school 180460-1718 | 84.173A | - | - | - | 11,229 | - | 11,229 | - |
| Total U.S. Department of Education | | 407,428 | - | - | 399,978 | - | 399,978 | - |
| U.S. Department of Agriculture | | | | | | | | |
| Nutrition Cluster | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | |
| National School Lunch Program | | | | | | | | |
| 1970-Breakfast | 10.553 | - | - | 161,514 | 140,497 | - | 140,497 | - |
| 1960 - Free and Reduced | 10.555 | - | - | 296,565 | 263,528 | - | 263,528 | - |
| 1980 - Snacks | 10.555 | - | - | 1,064 | - | - | - | - |
| USDA Commodities - Entitlement | 10.555 | - | - | 47,906 | 40,179 | - | 40,179 | - |
| Total National School Lunch/Commodities | | - | - | 345,535 | 303,707 | - | 303,707 | - |
| Food Equipment Grant 161991 | 10.579 | - | - | - | 6,190 | - | 6,190 | - |
| Total U.S. Department of Agriculture | | - | - | 507,049 | 450,394 | - | 450,394 | - |
| U.S. Department of Health and Human Services | | | | | | | | |
| Passed through Traverse Bay Area ISD | | | | | | | | |
| Medicaid - School Based Services | 93.778 | - | - | 2,391 | 1,442 | - | 1,442 | - |
| Total Federal Financial Assistance | | $ 407,428 | $ - | $ 509,440 | $ 851,814 | $ - | $ 851,814 | $ - |

 The accompanying notes are an integral part of this schedule.

# Benzie County Central School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

**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 | $ 851,814 |
| Federal sources per financial statements | $ 851,814 |

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

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Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
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Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
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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, 2018, 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 September 21, 2018.

## 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. 2018-001 and 2018-002, 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

September 21, 2018

DENNIS, GARTLAND & NIERGARTH

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Business Advisors

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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, 2018. 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, regulations, 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.

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***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, 2018.

## 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

September 21, 2018

# Benzie County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

**PRIOR YEAR**

See current year findings in section 2 for a repeat of prior year findings No. 2018-001 and 2018-002. There is no change in their status.

**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 unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major programs were School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555).
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 2018-001** (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 2018-002** (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.