

Benzie County Central School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2020

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
BALANCE SHEET - GOVERNMENTAL FUNDS.....	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES.....	9
STATEMENT OF FIDUCIARY NET POSITION.....	10
NOTES TO FINANCIAL STATEMENTS.....	11
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND	35
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	36
SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS.....	36
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY.....	37
SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS.....	37
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS.....	39
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS.....	40
FEDERAL PROGRAMS	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	42
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	43
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	44
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....	45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	48



BENZIE CENTRAL SCHOOLS

9300 Homestead Road
Benzonia, MI 49616
231-882-9653
www.benzieschools.net

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, 2020. It is meant to be read in conjunction with the transmittal letter following this report and the District’s financial statements immediately following.

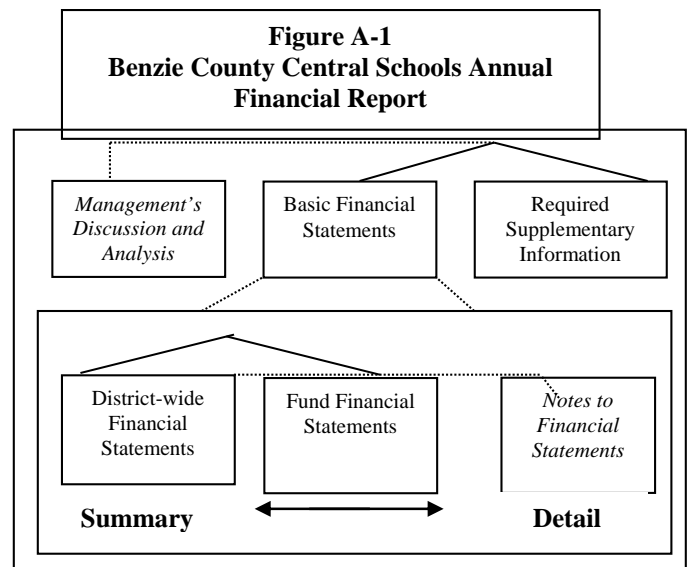
FINANCIAL HIGHLIGHTS

- The District continued to be challenged by declining enrollment.
- Although the foundation grant increased by \$240/pupil from \$7,871/pupil to \$8,111/pupil. Blended enrollment decreased by 51.96 FTEs compared to June 2019 (6/30/19 = 1,466.84 – 6/30/2020 = 1,414.88).
- The District’s contribution rate for employee retirement increased to 39.91%.
- 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 BCCESP (Transportation) and BCCESP (Secretarial) contracts are settled through August 2021. The BCCEA (Teachers), BCCESP (Paraprofessionals), and BCCESP (Custodial) contracts are not settled and expired on August 31, 2020. Each unit is in the process of requesting an extension of their current contract until potentially negotiating in November 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

DISTRICT-WIDE STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The District has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position

	2019	2020
Current and other assets	\$ 6,269,293	\$ 5,694,033
Capital assets	8,488,774	8,574,251
Deferred outflows of resources	7,819,300	7,640,669
Total assets and deferred outflows of resources	<u>22,577,367</u>	<u>21,908,953</u>
Net pension obligation	24,127,340	25,155,968
Net OPEB obligation	6,180,624	5,399,618
Long-term debt outstanding	556,118	218,435
Other liabilities	3,961,910	1,412,499
Total liabilities	<u>34,825,992</u>	<u>32,186,520</u>
Deferred inflows of resources	4,434,244	4,865,594
Net position		
Invested in capital assets, net of related debt	6,778,774	8,507,761
Restricted	1,205,686	1,399,701
Unrestricted (Deficit)	<u>(24,667,329)</u>	<u>(25,050,622)</u>
Total net position	<u><u>\$(16,682,869)</u></u>	<u><u>\$ (15,143,160)</u></u>

Change in Net Position - The District's financial position is the product of several independent factors. Overall, revenues and expenses both increased when compared to last year's data, resulting in an increase in net position. The change in net position for 19/20 is \$1,778,094 compared to \$2,401,700 for 18/19. A breakout of this \$1,778,094 can be found on page 6 of the audit. Revenues, in most cases can't be controlled by the District, but the District continues to hold the line and decrease expenditures as compared to last year.

Revenues	2019	2020
Property Taxes		
Levied for general purposes	\$ 7,507,591	\$ 7,627,995
Levied for debt service	1,310,232	1,363,490
Levied for sinking fund	734,265	764,173
State School Aid - unrestricted	3,970,177	3,447,621
Grants & contributions not restricted	244,118	128,446
Charges for services	217,027	264,061
Operating grants and contributions	4,034,798	4,223,814
Capital grants and contributions	-	-
Special Item - gain (loss) on disposal of assets	-	3,813
Investment and other	39,801	48,474
Total revenues	<u>18,058,009</u>	<u>17,871,887</u>
Expenses		
Instruction	8,600,420	8,882,124
Support services	5,371,537	5,594,450
Early Childhood	89,823	131,290
Food services	620,802	810,145
Athletics	237,804	238,819
Other	63,776	53,341
Interest on long-term debt	97,854	49,082
Depreciation	574,293	572,927
Total expenses	<u>15,656,309</u>	<u>16,332,178</u>
Change in net position	<u>\$ 2,401,700</u>	<u>\$ 1,539,709</u>
Net position, beginning of the year,	<u>(19,084,569)</u>	<u>(16,682,869)</u>
Net position, end of the year	<u>\$ (16,682,869)</u>	<u>\$ (15,143,160)</u>

District Governmental Activities

The District continued to maintain its sound financial planning and personnel management for the 2019 - 2020 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 the baseline classroom size should not be 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 \$3,106,139 (21.6% of expenditures). The non-spendable inventory and prepaid expenditures of \$53,130 and \$37,772, respectively, and assigned employee sick time of \$151,945 total \$232,847 compared to \$214,178 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 2019 - 2020 school year totaled \$21,100,703 or \$247,703 more than 2018 - 2019. Sinking Fund projects encompassed the majority of the addition to capital assets. For more details, see Note E, on page 18 of the audit.

	<u>2019</u>	<u>2020</u>
Building and improvements	\$ 17,307,927	\$ 17,580,358
Furniture and fixtures	2,001,695	2,139,775
Vehicles	1,543,378	1,380,570
Total	<u>\$ 20,853,000</u>	<u>\$ 21,100,703</u>

Long-term Debt

At year-end the District had \$218,435 in Long-Term Debt. (More detailed information about the District's long-term liabilities is presented in Note G, on page 19 of the audit.)

Table A-6		
BCCS's Outstanding Long-Term Debt		
	<u>2019</u>	<u>2020</u>
Energy Conservation Bond	\$ 495,000	\$ 66,490
Tech/Bus Bond	1,215,000	-
Accumulated Sick & Vacation Leave	156,118	151,945
Total	<u>\$ 1,866,118</u>	<u>\$ 218,435</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Enrollment continues to be the primary issue impacting Benzie School's financial position.
- The 20/21 foundation allowance is set at \$8,111 which is the same as the previous school year. The *preliminary blended* student count for the 2020/21 school year reflects a blended count of 1,358.81 a decrease of 49 students compared to the 2019/20 blended count of 1,414.88. At the 20/21 foundation rate of \$8,111/pupil, the 49 student decrease represents a loss of \$397,439 to the District. The official audited student count will not occur until after October 2020, which will be after this audit is published.
- The District's retirement contribution rate for 20/21 will increase to 42.72%, an increase of 2.81%.
- The sinking fund millage passed in 16/17 is expected to generate approximately \$700,000 in revenue for the District in 20/21.

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
Business Advisors Since 1973

Certified Public Accountants

Thomas E. Gartland, Retired
 Brad P. Niergarth, CPA
 James G. Shumate, CPA
 Robert C. Thompson, CPA
 Michael D. Shaw, Retired
 Mary F. Krantz, CPA
 Shelly K. Bedford, CPA
 Heidi M. Wendel, CPA
 Shelly A. Ashmore, CPA
 James M. Taylor, CPA
 Trina B. Edwards, CPA
 John A. Blair, CPA
 James V. Cusenza, CPA
 Laurie A. Bamberg, CPA

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 *Benzie County Central School District* (the "School District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the 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.

415 Munson Avenue • P.O. Box 947 • Traverse City, MI 49685 • 231.946.1722 ph • 231.946.2762 fax
 923 Spring Street • P.O. Box 695 • Petoskey, MI 49770 • 231.347.4136 ph • 231.347.4147 fax
www.dgncpa.com



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 Benzie County Central School District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages *i* through *vi*, Budgetary Comparison Information on page 35 and Pension and OPEB Schedules beginning on page 36, 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 25, 2020 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 25, 2020

Benzie County Central School District

STATEMENT OF NET POSITION

June 30, 2020

Governmental
Activities

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

Current assets

Cash and cash equivalents	\$ 4,540,219
Due from other governments	963,846
Prepaid expenses	112,772
Other receivables	7,678
Inventory	<u>69,518</u>
Total current assets	5,694,033

Capital assets, net of accumulated depreciation	<u>8,574,251</u>
---	------------------

Total assets	14,268,284
--------------	------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows for pension obligation	6,042,441
Deferred outflows for OPEB obligation	<u>1,598,228</u>

Total assets and deferred outflows of resources	<u><u>\$ 21,908,953</u></u>
---	-----------------------------

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current liabilities

Accounts payable	\$ 44,464
State aid anticipation note payable	173,657
Salaries payable and related liabilities	1,181,201
Accrued expenses	355
Unearned revenue	<u>12,821</u>
Total current liabilities	1,412,498

Non-current portion of long-term liabilities	218,435
Net pension obligation	25,155,968
Net OPEB obligation	<u>5,399,618</u>

Total liabilities	<u>32,186,519</u>
-------------------	-------------------

DEFERRED INFLOWS OF RESOURCES

Deferred inflows for pension obligation	2,263,322
Deferred inflows for OPEB obligation	<u>2,602,272</u>

Total deferred inflows of resources	<u>4,865,594</u>
-------------------------------------	------------------

NET POSITION

Invested in capital assets, net of related debt	8,507,761
Restricted for	
Capital projects	1,033,938
Food Service	365,763
Unrestricted (deficit)	<u>(25,050,622)</u>

Total net position	<u>(15,143,160)</u>
--------------------	---------------------

Total liabilities, deferred inflows of resources and net position	<u><u>\$ 21,908,953</u></u>
---	-----------------------------

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

Benzie County Central School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 8,882,124	\$ -	\$ 3,214,290	\$ -	\$ (5,667,834)
Supporting services	5,594,450	-	-	-	(5,594,450)
Food service	810,145	148,563	926,293	-	264,711
Early Childhood	131,290	60,044	83,231	-	11,985
Athletics	238,819	55,454	-	-	(183,365)
Other	53,341	-	-	-	(53,341)
Interest on long-term debt	49,082	-	-	-	(49,082)
Depreciation - unallocated	572,927	-	-	-	(572,927)
Total governmental activities	<u>\$ 16,332,178</u>	<u>\$ 264,061</u>	<u>\$ 4,223,814</u>	<u>\$ -</u>	<u>(11,844,303)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,627,995
Levied for debt service					1,363,490
Levied for sinking fund					764,173
State school aid - unrestricted					3,447,621
Grants and contributions not restricted to specific program					128,446
Investment and other					48,474
Total general purpose revenues					<u>13,380,199</u>
Special item - gain on disposal of assets					<u>3,813</u>
Change in net position					1,539,709
Net position, beginning of year					<u>(16,682,869)</u>
Net position, end of year					<u>\$ (15,143,160)</u>

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

Benzie County Central School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	General Fund	2017 Capital Sinking Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,142,999	\$ 1,049,721	\$ 347,499	\$ 4,540,219
Prepaid expenditures	37,772	-	75,000	112,772
Other receivables	5,305	-	2,373	7,678
Intergovernmental receivable	869,606	-	94,240	963,846
Due from other funds	137,764	-	58	137,822
Inventory	53,130	-	16,388	69,518
Total assets	\$ 4,246,576	\$ 1,049,721	\$ 535,558	\$ 5,831,855
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 18,402	\$ -	\$ 26,062	\$ 44,464
Salaries payable and related liabilities	1,181,201	-	-	1,181,201
Unearned revenue	5,562	-	7,259	12,821
Due to other funds	-	15,783	122,039	137,822
State aid anticipation note payable	173,657	-	-	173,657
Total liabilities	1,378,822	15,783	155,360	1,549,965
FUND BALANCES				
Nonspendable - inventory and prepaid expenditures	90,902	-	91,388	182,290
Restricted				
Capital projects	-	1,033,938	-	1,033,938
Food service	-	-	274,375	274,375
Committed - subsequent year expenditures	879,593	-	-	879,593
Assigned - employee sick time	151,945	-	-	151,945
Assigned - early childhood	-	-	14,435	14,435
Unassigned	1,745,314	-	-	1,745,314
Total fund balances	2,867,754	1,033,938	380,198	4,281,890
Total liabilities and fund balances	\$ 4,246,576	\$ 1,049,721	\$ 535,558	

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 \$21,269,494 and the accumulated depreciation is \$(12,695,243).

8,574,251

Deferred outflows of resources net of deferred inflows of resources for pension obligations of \$3,779,119 and OPEB obligations of \$(1,004,044) are not a financial resource and, therefore, are not reported in governmental funds.

2,775,075

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	\$ 66,490	
Accrued interest on bonds	355	
Accumulated leave liability	151,945	
Net pension obligation	25,155,968	
Net OPEB obligation	5,399,618	(30,774,376)

Total net position - governmental activities

\$ (15,143,160)

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

Benzie County Central School District

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

Year Ended June 30, 2020

	General Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 7,627,995	\$ 764,173	\$ 1,363,490	\$ 9,755,658
Interest	34,068	4,251	3,981	42,300
State revenues	5,833,731	-	46,357	5,880,088
Federal revenues	389,729	-	927,905	1,317,634
Other	628,500	-	250,043	878,543
Total revenues	<u>14,514,023</u>	<u>768,424</u>	<u>2,591,776</u>	<u>17,874,223</u>
Expenditures				
Instruction	8,297,653	-	-	8,297,653
Supporting services	5,056,383	-	-	5,056,383
Food service	-	-	810,145	810,145
Early childhood	-	-	131,290	131,290
Athletics	238,819	-	-	238,819
Other	37,941	13,950	-	51,891
Debt service				
Principal	428,510	-	1,215,000	1,643,510
Interest	23,523	-	33,413	56,936
Other	-	-	1,450	1,450
Capital outlay	316,860	557,430	55,558	929,848
Total expenditures	<u>14,399,689</u>	<u>571,380</u>	<u>2,246,856</u>	<u>17,217,925</u>
REVENUES OVER EXPENDITURES	<u>114,334</u>	<u>197,044</u>	<u>344,920</u>	<u>656,298</u>
Other financing sources (uses)				
Operating transfers in	344,102	-	179,944	524,046
Operating transfers out	-	-	(524,046)	(524,046)
Total other financing sources (uses)	<u>344,102</u>	<u>-</u>	<u>(344,102)</u>	<u>-</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	458,436	197,044	818	656,298
Fund balance, beginning of year	<u>2,409,318</u>	<u>836,894</u>	<u>379,380</u>	<u>3,625,592</u>
Fund balance, end of year	<u>\$ 2,867,754</u>	<u>\$ 1,033,938</u>	<u>\$ 380,198</u>	<u>\$ 4,281,890</u>

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

Benzie County Central School District

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

Year Ended June 30, 2020

Total Net Change in Fund Balances - Governmental Funds		\$ 656,298
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.</p>		
	Capital outlays \$ 660,740	
	Depreciation expense <u>(572,927)</u>	87,813
<p>Proceeds from the sale of assets are revenues in the governmental funds, but reduces capital assets, net of accumulated depreciation in the statement of net position with any difference reported as a gain or loss in the statement of activities.</p>		
	Proceeds \$ (6,149)	
	Gain <u>3,813</u>	(2,336)
<p>Change in deferred outflows of resources, net of the change in deferred inflows or resources.</p>		
		(609,981)
<p>In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts paid by \$4,173.</p>		
		4,173
<p>Repayment of bond principal is an expenditure or other financing use in the governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities.</p>		
		1,643,510
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is different by the change in accrued interest on bonds payable.</p>		
		7,854
<p>Increase in net pension obligation</p>		
		(1,028,628)
<p>Decrease in net OPEB obligation</p>		
		<u>781,006</u>
Changes in Net Position of Governmental Activities		<u><u>\$ 1,539,709</u></u>

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

Benzie County Central School District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>91,300</u>
LIABILITIES	
Due to student groups	\$ <u>91,300</u>

Benzie County Central School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Benzie County Central School District (the "School District") is a Michigan public school district consisting of three child cares, 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, 2020, the School District employs 77 professional staff and 68 non-professional staff, and has 1,415 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, 2020.

The Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Fund Types and Major Funds

Activities in Major Funds

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

The 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.

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 Funds maintained by the School District are the Food Service Fund and Early Childhood Fund, which began in 2019.

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 Cash 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures Over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2020, the School District was not in compliance with that provision as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction			
At Risk	\$ 483,774	\$ 483,776	\$ (2)
Supporting Services			
Guidance	240,137	240,148	(11)
Central Business	308,287	308,717	(430)
Debt service	115,543	452,033	(336,490)
Other	37,054	37,941	(887)

NOTE C - CASH AND CASH EQUIVALENTS

At June 30, 2020, the School District's cash and investments include the following:

	<u>Cash and Cash</u> <u>Equivalents</u>
Bank deposits	<u>\$ 4,631,519</u>

Bank Deposits

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

As of June 30, 2020, \$4,431,290 of the School District's bank balance of \$5,020,706 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

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

In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as unearned revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due to 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 \$424 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 \$853 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 \$853 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, 2020 are as follows:

Due from the State of Michigan - State Aid	\$ 829,306
Due from Federal Grants	90,610
Other	<u>43,930</u>
	<u>\$ 963,846</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements /Transfers</u>	<u>Ending Balance</u>
Buildings and improvements	\$ 17,256,944	\$ 323,414	\$ -	\$ 17,580,358
Furniture and equipment	2,052,678	87,097	-	2,139,775
Buses and vehicles	<u>1,543,378</u>	<u>140,625</u>	<u>(303,433)</u>	<u>1,380,570</u>
Total depreciable assets	20,853,000	551,136	(303,433)	21,100,703
Less accumulated depreciation	(12,423,413)	(572,927)	301,097	(12,695,243)
Construction-in-process	5,746	115,350	(5,746)	115,350
Land	<u>53,441</u>	<u>-</u>	<u>-</u>	<u>53,441</u>
Total capital assets, net	<u>\$ 8,488,774</u>	<u>\$ 93,559</u>	<u>\$ (8,082)</u>	<u>\$ 8,574,251</u>

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

Unallocated	<u>\$ (572,927)</u>
-------------	---------------------

NOTE F - STATE AID ANTICIPATION NOTE PAYABLE

The State Aid anticipation notes were issued to fund operations until State aid was received. The notes were secured by July and August State aid payments, bearing interest ranging from 1.30% to 2.50% and are due August 20, 2020. Changes in State aid anticipation notes payable during the year ended June 30, 2020 were as follows:

<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>
<u>\$ 1,269,286</u>	<u>\$ 1,200,000</u>	<u>\$ 2,295,629</u>	<u>\$ 173,657</u>

In August 2020, a \$1,850,000 State Aid anticipation note was secured for the 2020 - 2021 school year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2020 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Defeasance</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Energy conservation bonds	\$ 495,000	\$ -	\$ (428,510)	\$ 66,490	\$ -
Technology and bus bonds	1,215,000	-	(1,215,000)	-	-
Accumulated leave liability	<u>156,118</u>	<u>-</u>	<u>(4,173)</u>	<u>151,945</u>	<u>-</u>
Long-term debt at June 30, 2020	<u>\$ 1,866,118</u>	<u>\$ -</u>	<u>\$ (1,647,683)</u>	<u>\$ 218,435</u>	<u>\$ -</u>

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

At June 30, 2020, the School District's long-term debt consisted of the following:

\$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. An accelerated payment of \$335,000 was made during the year ended June 30, 2020 with the final balance due June 2024.	\$ 66,490
Accumulated leave liability	<u>151,945</u>
Total long-term debt	<u>\$ 218,435</u>

Interest expense for the year ended June 30, 2020 was \$49,082 and interest paid was \$56,936.

Total annual requirements to amortize bonds and loans outstanding as of June 30, 2020 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ -	\$ 4,255
2022	-	4,255
2023	-	4,255
2024	<u>66,490</u>	<u>4,255</u>
	<u>\$ 66,490</u>	<u>\$ 17,020</u>

Accumulated Leave Liability

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

NOTE H - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to the Benzie County Central School District. At June 30, 2020, 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 I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 137,764	\$ -
2017 Sinking Fund	-	15,783
Non-major Funds:		
Food Service Fund	-	75,000
Early Childhood Fund	<u>58</u>	<u>47,039</u>
	<u>\$ 137,822</u>	<u>\$ 137,822</u>

NOTE J - PENSION PLAN

Plan Description

The Michigan Public School Employees' Retirement System ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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.

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

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2019:

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

Required contributions to the pension plan from the School District were \$2,017,952 for the year ended September 30, 2019.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District's contributions to the MPSERS Defined Contribution Plan were \$69,375, for the year ended June 30, 2020, 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, 2020, the School District reported a liability of \$25,155,968 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The School District's 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, 2019, the School District's proportion was 0.07596172% percent, which was a decrease of 0.00429740% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$3,445,610. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 112,757	\$ 104,898
Changes of assumptions	4,925,556	-
Net difference between projected and actual earnings on pension plan investments	-	806,206
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,091	1,352,218
Employer contributions subsequent to the measurement date	<u>985,037</u>	<u>-</u>
Total	<u>\$ 6,042,441</u>	<u>\$ 2,263,322</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date of \$985,037 will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2020	\$ 1,166,749
2021	895,855
2022	513,095
2023	<u>218,383</u>
	<u>\$ 2,794,082</u>

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 actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans:	6.80%
Pension Plus Plan:	6.80%
Pension Plus 2 Plan:	6.00%
Projected Salary Increases:	2.75-11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	
	Retirees:
	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
	Active Members:
	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

NOTES TO FINANCIAL STATEMENTS - Continued

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.4977 for non-university employers or 1.000 for university employers)
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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

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

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

Rate of Return

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

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). This discount rate was based on the long term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1% Decrease <u>(5.8% / 5.8% / 5.0%)</u>	Current Single Discount Rate Assumption <u>(6.8% / 6.8% / 6.0%)</u>	1% Increase <u>(7.8% / 7.8% / 7.0%)</u>
\$ 32,704,367	\$ 25,155,968	\$ 18,898,084

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

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

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

The School District reported \$118,881 and \$4,114 payable to the plan at June 30, 2020 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTE K - 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

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

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

Required contributions to the OPEB plan from the School District were \$516,516 for the year ended September 30, 2019.

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2020, the School District reported a liability of \$5,399,618 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2018. 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, 2019, the School District's proportion was 0.07522719%, which was a decrease of 0.00252676% from its proportion measured as of October 1, 2018.

For the year ended June 30, 2020, the School District recognized OPEB expense of \$4,293. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,981,273
Changes of assumptions	1,169,988	-
Net difference between projected and actual earnings on OPEB plan investments	-	93,902
Changes in proportion and differences between employer contributions and proportionate share of contributions	193	527,097
Employer contributions subsequent to the measurement date	<u>428,047</u>	<u>-</u>
Total	<u>\$ 1,598,228</u>	<u>\$ 2,602,272</u>

From the above table, \$428,047 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2020	\$ (385,194)
2021	(385,194)
2022	(338,332)
2023	(228,363)
2024	<u>(95,008)</u>
Total	<u>\$ (1,432,091)</u>

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, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95%
Projected Salary Increases:	2.75-11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
	Active Members: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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 TO FINANCIAL STATEMENTS - Continued

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.7101.
- Recognition period for assets in years: 5.0000.
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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

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

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

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>1% Decrease (5.95%)</u>	<u>Current Discount Rate (6.95%)</u>	<u>1% Increase (7.95%)</u>
\$ 6,623,443	\$ 5,399,618	\$ 4,371,945

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:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
\$ 4,328,376	\$ 5,399,618	\$ 6,623,298

OPEB Plan Fiduciary Net Position

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

Payables to the OPEB Plan

The School District reported \$53,263 payable to the Plan at June 30, 2020 for the OPEB liability.

NOTE L - 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 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 through August 31, 2021.

COVID-19

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The School District closed on-site instruction operations on March 23, 2020 when the State of Michigan instituted a Stay Home Stay Safe Order, and did not reopen on-site instruction for the 2019/2020 school year. The School District believes it understands the risk associated with COVID-19. The School District is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to the School District's operations within and outside of the School District. The School District is planning a mix of remote and in-person instruction for the 2020/2021 school year, and has determined alternate plan options for instruction in the event of a surge in COVID-19 cases. The Michigan Department of Education has awarded \$350 per pupil in the 2020/2021 school year as Coronavirus Relief Funds. The extent to which the pandemic impacts other future funding or school operations will depend on future developments, which are highly uncertain at this time and cannot be predicted.

REQUIRED SUPPLEMENTARY INFORMATION

Benzie County Central School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2020

	Budgeted Amounts			Variances - Positive (Negative)	
	Original	Final	Actual (GAAP Basis)	Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	\$ 7,960,580	\$ 7,836,096	\$ 7,840,217	\$ (124,484)	\$ 4,121
State revenues	5,823,401	6,078,762	5,833,731	255,361	(245,031)
Federal revenues	341,571	388,857	389,729	47,286	872
Other	292,403	444,070	450,346	151,667	6,276
Total revenues	14,417,955	14,747,785	14,514,023	329,830	(233,762)
Expenditures					
Instruction					
Elementary	3,180,716	3,044,469	3,044,261	136,247	208
Middle School	1,341,525	1,317,299	1,316,587	24,226	712
High School	1,830,968	1,701,732	1,700,612	129,236	1,120
High School Alt Ed	35,648	33,088	33,086	2,560	2
Pre-Kindergarten Learning Exp (GSRP)	83,000	90,097	90,097	(7,097)	-
Special Ed	1,217,490	1,181,178	1,179,800	36,312	1,378
At Risk	457,454	483,774	483,776	(26,320)	(2)
Title I	311,794	279,006	279,005	32,788	1
Bilingual Ed	-	1,131	1,131	(1,131)	-
Title IV SSAE	19,489	-	-	19,489	-
Classroom Reduction	106,695	61,907	61,907	44,788	-
Vocation Ed	155,134	153,468	153,467	1,666	1
Total instruction	8,739,913	8,347,149	8,343,729	392,764	3,420
Supporting Services					
Guidance	238,652	240,137	240,148	(1,485)	(11)
Schools Improvement	30,154	25,216	25,215	4,938	1
Supervision/Direction of Inst Staff (GSRP)	35,800	68,560	68,559	(32,760)	1
Student Assessment (GSRP)	175	329	329	(154)	-
Board of Education	90,244	78,926	77,698	11,318	1,228
Central Business	307,894	308,287	308,717	(393)	(430)
School Administration	1,011,979	998,465	998,431	13,514	34
Fiscal Services	238,744	235,110	235,108	3,634	2
Business Services	86,269	70,265	70,265	16,004	-
Operations and Maintenance	1,495,950	1,460,623	1,458,172	35,327	2,451
Security Services	20,736	28,722	28,722	(7,986)	-
Transportation	1,838,543	1,545,438	1,543,336	293,105	2,102
Staff/Personnel Serv (GSRP)	11,318	14,861	14,672	(3,543)	189
Technology	245,150	249,450	249,052	(4,300)	398
Auditorium	14,280	8,944	8,743	5,336	201
Athletics	249,585	238,832	238,819	10,753	13
Total supporting services	5,915,473	5,572,165	5,565,986	343,308	6,179
Debt service	115,533	115,543	452,033	(10)	(336,490)
Other	36,300	37,054	37,941	(754)	(887)
Total expenditures	14,807,219	14,071,911	14,399,689	735,308	(327,778)
REVENUES OVER (UNDER) EXPENDITURES	(389,264)	675,874	114,334	1,065,138	(561,540)
Other financing sources					
Operating transfers in	-	-	344,102	-	344,102
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(389,264)	675,874	458,436	1,065,138	(217,438)
Fund balance, beginning of year	2,409,318	2,409,318	2,409,318	-	-
Fund balance, end of year	\$ 2,020,054	\$ 3,085,192	\$ 2,867,754	\$ 1,065,138	\$ (217,438)

Benzie County Central School District

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

Michigan Public School Employees Retirement Plan

	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.07596172 %	0.08025912 %	0.08334516 %	0.08310744 %	0.08535000 %	0.08318000 %
School District's proportionate share of net pension liability	\$ 25,155,968	\$ 24,127,340	\$ 21,598,274	\$ 20,734,626	\$ 20,846,995	\$ 18,321,117
School District's covered payroll	\$ 6,590,576	\$ 6,631,147	\$ 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 payroll	381.70 %	363.85 %	306.29 %	297.91 %	290.63 %	256.57 %
Plan fiduciary net position as a percentage of total pension liability	60.31 %	62.36 %	64.21 %	63.27 %	63.17 %	66.20 %

SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required contributions	\$ 1,219,937	\$ 1,153,275	\$ 1,177,400	\$ 1,355,838	\$ 1,646,531	\$ 1,554,496
School District contributions made to the Plan	<u>1,219,937</u>	<u>1,153,275</u>	<u>1,177,400</u>	<u>1,355,838</u>	<u>1,646,531</u>	<u>1,554,496</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 6,728,027	\$ 6,614,964	\$ 6,679,991	\$ 7,293,509	\$ 7,069,113	\$ 7,149,585
Contributions as a percentage of covered payroll	18.13 %	17.43 %	17.63 %	18.59 %	23.29 %	21.74 %

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

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

Benzie County Central School District

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

Michigan Public School Employees Retirement Plan

	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>
School District's proportion of net OPEB liability	0.07522719 %	0.07775395 %	0.08345211 %
School District's proportionate share of net OPEB liability	\$ 5,399,618	\$ 6,180,624	\$ 7,390,077
School District's covered payroll (OPEB)	\$ 6,590,576	\$ 6,631,147	\$ 7,051,556
School District's proportionate share of net OPEB liability as a percentage of covered payroll	81.93 %	93.21 %	104.80 %
Plan fiduciary net position as a percentage of total OPEB liability	48.46 %	42.95 %	36.39 %

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Statutorily required OPEB contributions	\$ 532,578	\$ 523,635	\$ 484,084
OPEB contributions in relation to statutorily required contributions	<u>532,578</u>	<u>523,635</u>	<u>484,084</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll (OPEB)	\$ 6,728,027	\$ 6,614,964	\$ 6,679,991
OPEB contributions as a percentage of covered payroll	7.92 %	7.92 %	7.25 %

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

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

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

Benzie County Central School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2020

	Special Revenue Fund		Debt Service Funds		Total Non-Major Governmental
	Food Service	Early Childhood	2015 Refunding Bond	2012 Bus and Tech Bond	
ASSETS					
Cash and cash equivalents	\$ 309,092	\$ 38,407	\$ -	\$ -	\$ 347,499
Prepaid expenditures	75,000	-	-	-	75,000
Other receivables	-	2,373	-	-	2,373
Intergovernmental receivables	73,540	20,700	-	-	94,240
Due from other funds	-	58	-	-	58
Inventory	16,388	-	-	-	16,388
	<u>16,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,388</u>
Total assets	<u>\$ 474,020</u>	<u>\$ 61,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,558</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 25,998	\$ 64	\$ -	\$ -	\$ 26,062
Unearned revenue	7,259	-	-	-	7,259
Due to other funds	75,000	47,039	-	-	122,039
	<u>75,000</u>	<u>47,039</u>	<u>-</u>	<u>-</u>	<u>122,039</u>
Total liabilities	<u>108,257</u>	<u>47,103</u>	<u>-</u>	<u>-</u>	<u>155,360</u>
FUND BALANCES					
Nonspendable - inventory and prepaid expenditures	91,388	-	-	-	91,388
Restricted					
Food service	274,375	-	-	-	274,375
Assigned - early childhood	-	14,435	-	-	14,435
	<u>-</u>	<u>14,435</u>	<u>-</u>	<u>-</u>	<u>14,435</u>
Total fund balances	<u>365,763</u>	<u>14,435</u>	<u>-</u>	<u>-</u>	<u>380,198</u>
Total liabilities and fund balances	<u>\$ 474,020</u>	<u>\$ 61,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,558</u>

Benzie County Central School District

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

Year Ended June 30, 2020

	<u>Special Revenue Fund</u>		<u>Debt Service Funds</u>		Total Non-Major Governmental
	<u>Food Service</u>	<u>Early Childhood</u>	2015 <u>Refunding Bond</u>	2012 <u>Bus and Tech Bond</u>	
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 1,363,490	\$ 1,363,490
Interest	842	71	569	2,499	3,981
State revenues	20,008	26,349	-	-	46,357
Federal revenues	906,285	21,620	-	-	927,905
Other	148,563	95,306	-	6,174	250,043
Total revenues	<u>1,075,698</u>	<u>143,346</u>	<u>569</u>	<u>1,372,163</u>	<u>2,591,776</u>
Expenditures					
Food service	810,145	-	-	-	810,145
Early childhood	-	131,290	-	-	131,290
Debt service					
Principal	-	-	-	1,215,000	1,215,000
Interest	-	-	-	33,413	33,413
Other	-	-	-	1,450	1,450
Capital outlay	55,558	-	-	-	55,558
Total expenditures	<u>865,703</u>	<u>131,290</u>	<u>-</u>	<u>1,249,863</u>	<u>2,246,856</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>209,995</u>	<u>12,056</u>	<u>569</u>	<u>122,300</u>	<u>344,920</u>
Other financing sources (uses)					
Operating transfers in	-	-	-	179,944	179,944
Operating transfers out	-	-	(179,944)	(344,102)	(524,046)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(179,944)</u>	<u>(164,158)</u>	<u>(344,102)</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	209,995	12,056	(179,375)	(41,858)	818
Fund balance, beginning of year	<u>155,768</u>	<u>2,379</u>	<u>179,375</u>	<u>41,858</u>	<u>379,380</u>
Fund balance, end of year	<u><u>\$ 365,763</u></u>	<u><u>\$ 14,435</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 380,198</u></u>

FEDERAL PROGRAMS

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2019	Prior Year Expenditures	Current Year Receipts	Transfers	Current Year Expenditures	Accrued Revenue June 30, 2020
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I Part A Cluster Grants - Educationally Deprived 201530-1920	84.010	\$ 301,710	\$ -	\$ 409,528	\$ 290,472	\$ 63,426	\$ 353,898	\$ -
Title IIA - Improving Teacher Quality 200520-1920 (transferred to Title I Part A)	84.367	63,426	-	-	63,426	(63,426)	-	-
Title IV Part A Student Support and Academic Enrichment 200750-1920	84.424	21,685	-	20,266	21,685	-	21,685	-
Total passed through Michigan Department of Education		<u>386,821</u>	<u>-</u>	<u>429,794</u>	<u>375,583</u>	<u>-</u>	<u>375,583</u>	<u>-</u>
Passed through Traverse Bay Area ISD								
Special Education Cluster Pre-school 200460-1920	84.173A	-	-	4,129	9,483	-	9,483	-
Total U.S. Department of Education		<u>386,821</u>	<u>-</u>	<u>433,923</u>	<u>385,066</u>	<u>-</u>	<u>385,066</u>	<u>-</u>
U.S. Department of Agriculture								
Child Nutrition Cluster								
Passed through Michigan Department of Education								
School Breakfast Program 1970-Breakfast	10.553	-	-	180,915	127,360	-	127,360	-
National School Lunch Program								
1960 - Free and Reduced	10.555	-	-	305,968	225,481	-	225,481	-
0902 - Unanticipated School Closure	10.555	-	-	-	419,111	-	489,021	69,910
USDA Commodities - Entitlement	10.555	-	-	44,660	47,740	-	47,740	-
Total National School Lunch/Commodities		<u>-</u>	<u>-</u>	<u>350,628</u>	<u>692,332</u>	<u>-</u>	<u>762,242</u>	<u>69,910</u>
1900 - Summer Food Service Program	10.559	-	-	533	-	-	-	-
Total Child Nutrition Cluster/Commodities		<u>-</u>	<u>-</u>	<u>532,076</u>	<u>819,692</u>	<u>-</u>	<u>889,602</u>	<u>69,910</u>
Fresh Fruit and Vegetable	10.582	-	-	10,095	4,411	-	4,411	-
Child and Adult Care Food Program meals	10.558	-	-	2,397	13,193	-	13,193	-
Total U.S. Department of Agriculture		<u>-</u>	<u>-</u>	<u>544,568</u>	<u>837,296</u>	<u>-</u>	<u>907,206</u>	<u>69,910</u>
U.S. Department of Treasury								
Passed through Michigan Department of Education								
Child Care and Development Block Grant	93.575	-	-	-	-	-	20,700	20,700
U.S. Department of Health and Human Services								
Passed through Traverse Bay Area ISD								
Medicaid - School Based Services	93.778	-	-	2,793	4,662	-	4,662	-
Total Federal Financial Assistance		<u>\$ 386,821</u>	<u>\$ -</u>	<u>\$ 981,284</u>	<u>\$ 1,227,024</u>	<u>\$ -</u>	<u>\$ 1,317,634</u>	<u>\$ 90,610</u>

-42- 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, 2020

- Note 1** The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the School District, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the 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”). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** The School District did not use the 10% de-minimis indirect cost rate allowed under the Uniform Guidance.
- Note 5** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,317,634</u>
Federal sources per financial statements	<u>\$ 1,317,634</u>



DENNIS, GARTLAND & NIERGARTH
Business Advisors Since 1973

Certified Public Accountants

Thomas E. Gartland, Retired
 Brad P. Niergarth, CPA
 James G. Shumate, CPA
 Robert C. Thompson, CPA
 Michael D. Shaw, Retired
 Mary F. Krantz, CPA
 Shelly K. Bedford, CPA
 Heidi M. Wendel, CPA
 Shelly A. Ashmore, CPA
 James M. Taylor, CPA
 Trina B. Edwards, CPA
 John A. Blair, CPA
 James V. Cusenza, CPA
 Laurie A. Bamberg, CPA

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 **Benzie County Central School District** (the "School District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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. 2020-001 and 2020-002, that we consider to be material weaknesses.

415 Munson Avenue • P.O. Box 947 • Traverse City, MI 49685 • 231.946.1722 ph • 231.946.2762 fax
 923 Spring Street • P.O. Box 695 • Petoskey, MI 49770 • 231.347.4136 ph • 231.347.4147 fax
www.dgncpa.com



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 25, 2020



DENNIS, GARTLAND & NIERGARTH
Business Advisors Since 1973

Certified Public Accountants

Thomas E. Gartland, Retired
 Brad P. Niergarth, CPA
 James G. Shumate, CPA
 Robert C. Thompson, CPA
 Michael D. Shaw, Retired
 Mary F. Krantz, CPA
 Shelly K. Bedford, CPA
 Heidi M. Wendel, CPA
 Shelly A. Ashmore, CPA
 James M. Taylor, CPA
 Trina B. Edwards, CPA
 John A. Blair, CPA
 James V. Cusenza, CPA
 Laurie A. Bamberg, CPA

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 *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, 2020. 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.

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, 2020.

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 25, 2020

Benzie County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2020

PRIOR YEAR

See current year findings in section 2 for a repeat of prior year findings No. 2019-001 and 2019-002. 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 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 program was the Child Nutrition Cluster which includes: School Breakfast Program (CFDA No. 10.553), 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 2020-001 (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 2020-002 (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

Finding Number 2020-003

Child Nutrition Cluster: School Breakfast Program CFDA #10.553; National School Lunch Program CFDA #10.555

Eligibility – Calculation of free and reduced meals

Immaterial Noncompliance

Criteria: Per Federal regulations 7 CFR part 210, Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals.

Condition: The School District miscalculated the household income of one family and coded the eligibility of a student as free rather than reduced.

Cause: Application was misread.

Effect: Meal reimbursement claims were immaterially overstated.

Questioned Costs: None.

Recommendation: Implement a review process of eligibility applications by an individual other than the person responsible for the initial calculation.

Management's Response and Corrective Actions: The food service director now performs a secondary review of applications and corrects application discrepancies, as applicable.

Person Responsible for Corrective Action: Michele Murray, Director of Finance, and Lisa Purchase, Food Service Director

Completion Date: July 2020.