

Benzie County Central School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2021

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MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Benzie County Central School’s annual financial report presents a discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2021. It is meant to be read in conjunction with the transmittal letter following this report and the District’s financial statements immediately following.

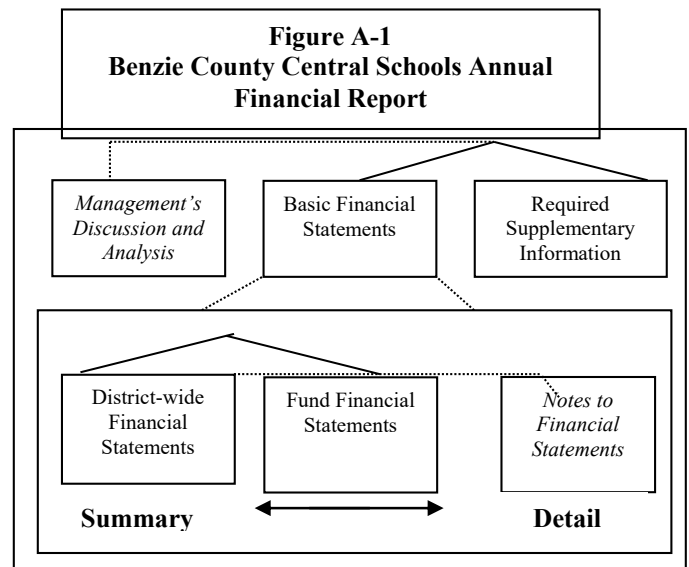
FINANCIAL HIGHLIGHTS

- The District continued to be challenged by declining enrollment.
- The foundation grant stayed the same as the prior year at \$8,111/pupil. Blended enrollment decreased by 46.24 FTEs compared to June 2020 (6/30/20 = 1,414.88 – 6/30/2021 = 1,368.64).
- The District’s contribution rate for employee retirement increased to 42.72%.
- 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 31, 2024. The BCCEA (Teachers), BCCESP (Paraprofessionals), and BCCESP (Custodial) contracts are settled through August 31, 2022.

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.



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
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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
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

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 only one type of fund, governmental funds:

- *Governmental funds* – All 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position

	2020	2021
Current and other assets	\$ 5,694,033	\$ 46,654,420
Capital assets	8,574,251	9,533,834
Deferred outflows of resources	7,640,669	6,133,720
Total assets and deferred outflows of resources	<u>21,908,953</u>	<u>62,321,974</u>
Net pension obligation	25,155,968	25,715,266
Net OPEB obligation	5,399,618	4,025,850
Long-term debt outstanding	218,435	38,161,465
Other liabilities	1,412,499	3,253,104
Total liabilities	<u>32,186,520</u>	<u>71,155,685</u>
Deferred inflows of resources	4,865,594	4,561,803
Net position		
Invested in capital assets, net of related debt	8,507,761	8,200,459
Restricted	1,399,701	1,889,104
Unrestricted (Deficit)	<u>(25,050,622)</u>	<u>(23,485,077)</u>
Total net position	<u><u>\$ (15,143,160)</u></u>	<u><u>\$ (13,395,514)</u></u>

Change in Net Position - The District's financial position is the product of several independent factors. Overall, revenues and expenses both decreased when compared to last year's data, resulting in an increase in net position. The change in net position for 20/21 is \$1,656,346 compared to \$1,539,709 for 19/20. A breakout of this \$1,656,346 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	2020*	2021
Property Taxes		
Levied for general purposes	\$ 7,627,995	\$ 7,867,054
Levied for debt service	1,363,490	-
Levied for sinking fund	764,173	789,826
State School Aid - unrestricted	3,447,621	3,306,719
Grants & contributions not restricted	128,446	168,089
Charges for services	264,061	189,790
Operating grants and contributions	4,223,814	5,422,427
Special Item - gain on disposal of assets	3,813	-
Investment and other	48,474	27,935
Total revenues	<u>17,871,887</u>	<u>17,771,840</u>
Expenses		
Instruction	8,882,124	8,361,827
Support services	5,594,450	5,599,956
Food service	810,145	671,418
Early Childhood	131,290	129,765
Student activities	-	85,820
Athletics	238,819	254,148
Other	53,341	452,923
Interest on long-term debt	49,082	2,095
Depreciation	572,927	557,542
Total expenses	<u>16,332,178</u>	<u>16,115,494</u>
Change in net position	<u>\$ 1,539,709</u>	<u>\$ 1,656,346</u>
Net position, beginning of the year, <i>as restated</i>	<u>(16,682,869)</u>	<u>(15,051,860)</u>
Net position, end of the year	<u>\$ (15,143,160)</u>	<u>\$ (13,395,514)</u>

*The School District implemented GASB 84 during the year ended June 30, 2021. The impact on the statement of net position, revenues and expenses for the year ended June 30, 2020 is unknown and, therefore, revenues and expense for 2021 and 2020 are not comparable for items related to GASB 84.

District Governmental Activities

The District continued to maintain its sound financial planning and personnel management for the 2020 - 2021 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 \$4,668,730 (33.3% of expenditures). The non-spendable inventory and prepaid expenditures of \$53,130 and \$67,465, respectively, and assigned employee sick time of \$156,591 total \$277,186 compared to \$242,847 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 2020 - 2021 school year totaled \$21,373,266 or \$272,563 more than 2019 - 2020. Sinking Fund projects encompassed the majority of the addition to capital assets. For more details, see Note F, on page 19 of the audit.

	<u>2020</u>	<u>2021</u>
Building and improvements	\$ 17,580,358	\$ 17,656,140
Furniture and fixtures	2,139,775	2,249,696
Vehicles	1,380,570	1,467,430
Total	<u>\$ 21,100,703</u>	<u>\$ 21,373,266</u>

Long-term Debt

At year-end the District had \$38,789,129 in Long-Term Debt. (More detailed information about the District's long-term liabilities is presented in Note H, on page 20 of the audit.)

	<u>2020*</u>	<u>2021</u>
General obligation bonds	\$ -	\$ 31,630,000
Energy Conservation Bond	66,490	66,490
Unamortized Premium	-	6,936,048
Accumulated Sick & Vacation Leave	151,945	156,591
Total	<u>\$ 218,435</u>	<u>\$ 38,789,129</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 a primary issue impacting Benzie Central School's financial position. The COVID-19 pandemic required local governmental entities to make decisions that impacted campuses, some of which led to possible reductions in enrollment.
- The 2020/21 foundation allowance was \$8,111, which is no change from the previous school year. The blended pupil count for the 2020/21 school year was \$1,338.82 which is a reduction of 16.74 students from 2019/20, and 72.72 less than the 2018/19 school year. At the 2020/21 foundation rate of \$8,111 per pupil, the 16.74 student decrease represents a loss of \$135,778 in funding to the District. The official audited student count occurs in the Fall of 2021, any adjustments will be made to the District in future state aid payments.
- The District's retirement contribution rate for 2020/21 increased to 42.72%, an increase of 2.81%. The rate increased effective October 1, 2021 to 43.28% an increase of 0.56%.
- The sinking fund millage passed in 2016/17 generated \$797,656 in revenue for the District in 2020/21. The mileage is expected to levy \$748,000 for the 2021/22 school year.
- The stakeholders of Benzie Central Schools passed a Bond in November of 2020. The approximate \$37M bond will help the District with numerous projects impacting all buildings in the District. Plans are underway for upgrades, additions, a new transportation hub, and a new Elementary building.
- The USDA extended free meals to children through the 2020/21 school year due to the COVID-19 pandemic. This provided much needed meals for children and relief to families in the community. The District is reimbursed for each meal served to students throughout the year. The program has been extended through the 2021/22 school year.

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.



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 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, 2021, 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.

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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, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, during the year ended June 30, 2021.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages *i* through *vi*, Budgetary Comparison Information on page 37 and Pension and OPEB Schedules beginning on page 38, 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.

Board of Education
Benzie County Central School District

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 November 30, 2021 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

Certified Public Accountants
Traverse City, Michigan

November 30, 2021

Benzie County Central School District

STATEMENT OF NET POSITION

June 30, 2021

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 44,907,806
Due from other governments	1,529,990
Prepaid expenses	142,465
Other receivables	4,641
Inventory	<u>69,518</u>
Total current assets	46,654,420
Capital assets, net of accumulated depreciation	<u>9,533,834</u>
Total assets	56,188,254
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pension obligation	4,346,369
Deferred outflows for OPEB obligation	<u>1,787,351</u>
Total deferred outflows of resources	<u>6,133,720</u>
Total assets and deferred outflows of resources	<u><u>\$ 62,321,974</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 861,790
Salaries payable and related liabilities	1,068,570
Unearned revenue	23,296
State aid anticipation note payable	671,429
Accrued expenses	355
Current portion of long-term liabilities	<u>627,664</u>
Total current liabilities	3,253,104
Non-current portion of long-term liabilities	38,161,465
Net pension obligation	25,715,266
Net OPEB obligation	<u>4,025,850</u>
Total liabilities	<u>71,155,685</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pension obligation	1,163,403
Deferred inflows for OPEB obligation	<u>3,398,400</u>
Total deferred inflows of resources	<u>4,561,803</u>
NET POSITION	
Invested in capital assets, net of related debt	8,200,459
Restricted for	
Capital projects	1,407,883
Food service	481,221
Unrestricted (deficit)	<u>(23,485,077)</u>
Total net position	<u>(13,395,514)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 62,321,974</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, 2021

Functions/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 8,361,827	\$ -	\$ 4,433,849	\$ (3,927,978)
Supporting services	5,599,956	-	-	(5,599,956)
Food service	671,418	44,923	801,677	175,182
Early childhood	129,765	95,184	65,629	31,048
Student activities	85,820	-	121,272	35,452
Athletics	254,148	49,683	-	(204,465)
Other	452,923	-	-	(452,923)
Interest on long-term debt	2,095	-	-	(2,095)
Depreciation - unallocated	557,542	-	-	(557,542)
	<u>\$ 16,115,494</u>	<u>\$ 189,790</u>	<u>\$ 5,422,427</u>	<u>(10,503,277)</u>
		General purpose revenues		
				Property taxes
				Levied for general purposes
				7,867,054
				Levied for sinking fund
				789,826
				State school aid - unrestricted
				3,306,719
				Grants and contributions not restricted to specific program
				168,089
				Investment and other
				27,935
				Total general purpose revenues
				12,159,623
				Change in net position
				1,656,346
				Net position, beginning of year, <i>as restated</i>
				(15,051,860)
				Net position, end of year
				\$ (13,395,514)

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

Benzie County Central School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021

	General Fund	2021 School Building & Site Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,063,733	\$ 37,780,320	\$ 2,063,753	\$ 44,907,806
Prepaid expenditures	67,465	-	75,000	142,465
Other receivables	-	-	4,641	4,641
Intergovernmental receivable	1,472,121	-	57,869	1,529,990
Due from other funds	40,235	-	203,903	244,138
Inventory	53,130	-	16,388	69,518
Total assets	\$ 6,696,684	\$ 37,780,320	\$ 2,421,554	\$ 46,898,558
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 218,523	\$ 413,735	\$ 229,532	\$ 861,790
Salaries payable and related liabilities	1,068,570	-	-	1,068,570
Unearned revenue	5,562	-	17,734	23,296
Due to other funds	63,870	67,422	112,846	244,138
State aid anticipation note payable	671,429	-	-	671,429
Total liabilities	2,027,954	481,157	360,112	2,869,223
FUND BALANCES				
Nonspendable - inventory and prepaid expenditures	120,595	-	91,388	211,983
Restricted				
Capital projects	-	37,299,163	1,407,883	38,707,046
Food service	-	-	389,833	389,833
Committed - student activities	-	-	126,752	126,752
Assigned - employee sick time	156,591	-	-	156,591
Assigned - early childhood	-	-	45,586	45,586
Unassigned	4,391,544	-	-	4,391,544
Total fund balances	4,668,730	37,299,163	2,061,442	44,029,335
Total liabilities and fund balances	\$ 6,696,684	\$ 37,780,320	\$ 2,421,554	

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 \$22,786,619 and the accumulated depreciation is \$(13,252,785). 9,533,834

Deferred outflows of resources are not a financial resource and, therefore, are not reported as assets in governmental funds. 6,133,720

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	\$ 31,696,490	
Accrued interest on bonds	355	
Unamortized bond premium	6,936,048	
Accumulated leave liability	156,591	
Net pension obligation	25,715,266	
Net OPEB obligation	4,025,850	(68,530,600)

Deferred inflows of resources are not a financial resource and, therefore, are not reported as liabilities in governmental funds. (4,561,803)

Total net position - governmental activities \$ (13,395,514)

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, 2021

	General Fund	2021 School Building & Site Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 7,867,054	\$ -	\$ 789,826	\$ 8,656,880
Interest	16,662	2,907	3,488	23,057
State revenues	5,869,754	-	82,101	5,951,855
Federal revenues	1,174,893	-	743,821	1,918,714
Other	913,694	-	307,640	1,221,334
Total revenues	15,842,057	2,907	1,926,876	17,771,840
Expenditures				
Instruction	8,101,567	-	-	8,101,567
Supporting services	5,161,904	-	-	5,161,904
Food service	-	-	671,418	671,418
Early childhood	-	-	129,765	129,765
Student activities	-	-	85,820	85,820
Athletics	254,148	-	-	254,148
Other	29,488	-	1,619	31,107
Debt service				
Interest	2,095	-	-	2,095
Capital outlay	491,879	974,086	482,248	1,948,213
Total expenditures	14,041,081	974,086	1,370,870	16,386,037
REVENUES OVER (UNDER) EXPENDITURES	1,800,976	(971,179)	556,006	1,385,803
Other financing sources				
Proceeds from bond issuance	-	31,630,000	-	31,630,000
Proceeds from bond premium	-	7,062,158	-	7,062,158
Bond issuance costs	-	(421,816)	-	(421,816)
Total other financing sources	-	38,270,342	-	38,270,342
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	1,800,976	37,299,163	556,006	39,656,145
Fund balance, beginning of year, <i>as restated</i>	2,867,754	-	1,505,436	4,373,190
Fund balance, end of year	\$ 4,668,730	\$ 37,299,163	\$ 2,061,442	\$ 44,029,335

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, 2021

Total Net Change in Fund Balances - Governmental Funds	\$ 39,656,145
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 expense in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.</p>	
Capital outlays	\$ 1,517,125
Depreciation expense	<u>(557,542)</u>
	959,583
Change in deferred outflows of resources for:	
Pension obligation	\$ (1,696,072)
OPEB obligation	<u>189,123</u>
	(1,506,949)
<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 greater than the amounts paid by \$4,646.</p>	
	(4,646)
<p>Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from:</p>	
Bonds issued of \$31,630,000 and bond premiums of \$7,062,158.	(38,692,158)
Amortization of bond premium.	126,110
Increase in net pension obligation	(559,298)
Decrease in net OPEB obligation	<u>1,373,768</u>
Change in deferred inflows of resources for:	
Pension obligation	\$ 1,099,919
OPEB obligation	<u>(796,128)</u>
	<u>303,791</u>
Changes in Net Position of Governmental Activities	<u>\$ 1,656,346</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, 2021, the School District employs 79 professional staff and 72 non-professional staff, and has 1,369 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, 2021.

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. 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 2021 School Building and Site Fund is used to account for financial resources to be used for the improvement of major capital facilities.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted, committed, or assigned to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund, Early Childhood Fund and Student Activity 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.

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.

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

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

Fund Balance

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

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

Program Revenues

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

The School District's most significant program revenues are Title I, At-Risk, School Lunch Program, Coronavirus Relief Fund, Elementary and Secondary School Emergency Relief (ESSER) funds, and Governor's Emergency Education Relief (GEER) funds, which are reported as operating grants and contributions.

Encumbrance Accounting

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

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Pension Plan

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

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

Use of Estimates in the Preparation of Financial Statements

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

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2021, the School District implemented GASB Statement 84, *Fiduciary Activities*. GASB Statement 84 clarified the identification of fiduciary activities for accounting and financial reporting purposes. As a result, certain activity formerly accounted for in the agency fund is no longer considered fiduciary, and was transferred to a special revenue fund, the Student Activity Fund.

Net position at June 30, 2020, <i>as originally stated</i>	\$ (15,143,160)
Record Student Activity fund balance at June 30, 2020	<u>91,300</u>
Net position at June 30, 2020, <i>as restated</i>	<u>\$ (15,051,860)</u>
Total fund balance at June 30, 2020, <i>as originally stated</i>	\$ 4,281,890
Record Student Activity fund balance at June 30, 2020	<u>91,300</u>
Total fund balance at June 30, 2020, <i>as restated</i>	<u>\$ 4,373,190</u>

NOTE C - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which she submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. She does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

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, 2021, 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	\$ 506,087	\$ 718,173	\$ (212,086)
Vocation Ed	169,376	174,973	(5,597)
Supporting Services			
Schools Improvement	31,689	32,355	(666)
Student Assessment (GSRP)	479	518	(39)
Technology	271,261	333,853	(62,592)

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - CASH AND CASH EQUIVALENTS

At June 30, 2021, the School District's cash and investments include the following:

	<u>Cash and Cash Equivalents</u>
Cash on hand	\$ 200
Bank deposits	7,127,286
Investments	<u>37,780,320</u>
Total	<u>\$ 44,907,806</u>

Bank Deposits

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

As of June 30, 2021, \$6,737,257 of the School District's bank balance of \$7,365,546 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments at June 30, 2021 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$37,780,320</u>	<u>\$37,780,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair market value losses arising from increasing interest rates.

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in short-term securities or Michigan Liquid Asset Funds ("MILAF"), and limiting the average maturity. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

Credit Risk

The School District's investment policy limits investments in commercial paper to a prime or better rating at the time of purchase and maturing not more than 270 days after the date of purchase. As of June 30, 2021, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$433 million and \$6 per \$1,000 of equalized commercial personal property value of \$8 million was levied for general operating purposes. For sinking fund purposes, \$0.90 per \$1,000 of total equalized property value of \$889 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, 2021 are as follows:

Due from the State of Michigan - State Aid	\$ 1,061,245
Due from Federal Grants	243,502
Other	<u>225,243</u>
	<u>\$ 1,529,990</u>

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following during the year ended June 30, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Buildings and improvements	\$ 17,580,358	\$ 75,782	\$ -	\$ 17,656,140
Furniture and equipment	2,139,775	109,921	-	2,249,696
Buses and vehicles	<u>1,380,570</u>	<u>86,860</u>	<u>-</u>	<u>1,467,430</u>
Total depreciable assets	21,100,703	272,563	-	21,373,266
Less accumulated depreciation	(12,695,243)	(557,542)	-	(13,252,785)
Construction-in-process	115,350	1,244,562	-	1,359,912
Land	<u>53,441</u>	<u>-</u>	<u>-</u>	<u>53,441</u>
Total capital assets, net	<u>\$ 8,574,251</u>	<u>\$ 959,583</u>	<u>\$ -</u>	<u>\$ 9,533,834</u>

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

Unallocated	<u>\$ (557,542)</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - STATE AID ANTICIPATION NOTE PAYABLE

The State Aid anticipation notes were issued to fund operations until State aid was received. The notes were secured by July and August State aid payments, bearing interest ranging from 0.70% to 0.25% and are due July 20, 2021 and August 20, 2021. Changes in State aid anticipation notes payable during the year ended June 30, 2021 were as follows:

<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>
\$ 173,657	\$ 1,850,000	\$ 1,352,228	\$ 671,429

NOTE H - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2021 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Defeasance</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ -	\$31,630,000	\$ -	\$31,630,000	\$ 325,000
Energy conservation bonds	66,490	-	-	66,490	-
Unamortized premium	-	7,062,158	(126,110)	6,936,048	302,664
Accumulated leave liability	<u>151,945</u>	<u>4,646</u>	<u>-</u>	<u>156,591</u>	<u>-</u>
Long-term debt at June 30, 2021	<u>\$ 218,435</u>	<u>\$38,696,804</u>	<u>\$ (126,110)</u>	<u>\$38,789,129</u>	<u>\$ 627,664</u>

Payments on general obligation bonds beginning November 2021 will be made by a Debt Service Fund. All other borrowing and the accumulated leave liability will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2021, the School District's long-term debt consisted of the following:

\$31,630,000 2021 Building and Site Bonds for building a new elementary school; additions and remodeling of existing schools and bus garages; installing instructional technology; building and improving playgrounds, playfields and sites; and purchasing buses; due in annual installments of \$325,000 to \$2,310,000 through May 2045, plus interest at a rate of 4.00%.	\$31,630,000
\$1,340,000 2009 Energy Conservation Bonds for the purpose of energy conservation improvements; due in installments of \$85,000 to \$105,000 through June 2024; plus interest at a rate of .90% over the prime rate. An accelerated payment of \$335,000 was made during the year ended June 30, 2020 with the final balance due June 2024.	<u>66,490</u>
Total bonds payable	31,696,490
Unamortized premium	6,936,048
Accumulated leave liability	<u>156,591</u>
Total long-term debt	<u><u>\$38,789,129</u></u>

Interest expense and interest paid for the year ended June 30, 2021 was \$2,095.

Total annual requirements to amortize bonds and loans outstanding as of June 30, 2021 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 325,000	\$ 1,550,611
2023	635,000	1,256,455
2024	646,490	1,231,055
2025	675,000	1,203,600
2026	770,000	1,176,600
Thereafter	<u>28,645,000</u>	<u>13,341,200</u>
	<u><u>\$ 31,696,490</u></u>	<u><u>\$ 19,759,521</u></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 I - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to the Benzie County Central School District. At June 30, 2021, there were no significant unbilled claims.

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

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

NOTE J - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 40,235	\$ 63,870
2021 School Building & Site Fund	-	67,422
Non-major Funds:		
Food Service Fund	-	87,355
Early Childhood Fund	24,659	25,491
2017 Capital Sinking Fund	<u>179,244</u>	<u>-</u>
	<u>\$ 244,138</u>	<u>\$ 244,138</u>

NOTE K - 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 on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% 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, 2019 will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2020:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	19.41%
Member Investment Plan	3.0-7.0%	19.41%
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 \$2,057,254 for the year ended September 30, 2020.

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2021, the School District reported a liability of \$25,715,266 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2020, the School District's proportion was 0.07486012%, which was a decrease of 0.00110160% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the School District recognized pension expense of \$3,216,255. At June 30, 2021, 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	\$ 392,908	\$ 54,885
Changes of assumptions	2,849,499	-
Net difference between projected and actual earnings on pension plan investments	108,044	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,522	1,108,518
Employer contributions subsequent to the measurement date	<u>989,396</u>	<u>-</u>
Total	<u>\$ 4,346,369</u>	<u>\$ 1,163,403</u>

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 \$989,396 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2021	\$ 1,031,174
2022	655,027
2023	367,656
2024	<u>139,713</u>
	<u>\$ 2,193,570</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, 2019
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans:	6.80% net of investment expenses
Pension Plus Plan:	6.80% net of investment expenses
Pension Plus 2 Plan:	6.00% net of investment expenses
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:

- 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, 2020, is based on the results of an actuarial valuation date of September 30, 2019, 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: 4.4892
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets

The long-term expected rate of return on 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, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Oppportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	0.1
	100.0 %	

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

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension plan investment, net of pension 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 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, hybrid plans provided through non-university employers only). 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:

<u>1% Decrease</u> <u>(5.80% / 5.80% / 5.00%)</u>	<u>Current Single Discount</u> <u>Rate Assumption</u> <u>(6.80% / 6.80% / 6.00%)</u>	<u>1% Increase</u> <u>(7.80% / 7.80% / 7.00%)</u>
\$ 33,284,049	\$ 25,715,266	\$ 19,442,431

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 \$182,640 and \$3,914 payable to the plan at June 30, 2021 for legally required defined benefit and defined contribution plan contributions, respectively.

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

Plan Description

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

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

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

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

Benefits Provided

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

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

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

Contributions

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

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for the year ended September 30, 2020.

<u>OPEB Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00%	8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

Required contributions to the OPEB plan from the School District were \$530,935 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$4,025,850 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2019. 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, 2020, the School District's proportion was 0.07514745%, which was a decrease of 0.00007974% from its proportion measured as of September 30, 2019.

NOTES TO FINANCIAL STATEMENTS - Continued

For the year ended June 30, 2021, the School District recognized OPEB income of \$244,790. At June 30, 2021, 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	\$ -	\$ 2,999,634
Changes of assumptions	1,327,403	-
Net difference between projected and actual earnings on OPEB plan investments	33,600	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,905	398,766
Employer contributions subsequent to the measurement date	<u>419,443</u>	<u>-</u>
Total	<u>\$ 1,787,351</u>	<u>\$ 3,398,400</u>

From the above table, contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date of \$419,443 will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. 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>
2021	\$ (578,460)
2022	(531,648)
2023	(421,756)
2024	(288,469)
2025	<u>(210,159)</u>
Total	<u>\$ (2,030,492)</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.

NOTES TO FINANCIAL STATEMENTS - Continued

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2019
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95% net of investment expenses
Projected Salary Increases:	2.75-11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.0% Year 1 graded to 3.5% Year 15; 3.0% 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:

- 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 OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2020, is based on the results of an actuarial valuation date of September 30, 2019, 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: 5.6018.
- Recognition period for assets in years: 5.0000.
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	(0.1)
	100.0 %	

**Long-term rates of return are net of administrative expenses and 2.1% inflation.*

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 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>
\$ 5,171,661	\$ 4,025,850	\$ 3,061,172

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

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what 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>
\$ 3,024,236	\$ 4,025,850	\$ 5,165,061

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2020 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

The School District reported a \$80,476 payable to the Plan at June 30, 2021 for the OPEB liability.

NOTE M - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Benzie County Central Education Association. The Board of Education and the Benzie County Central Education Association have a contract through August 31, 2022.

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, 2022.

NOTE N - RISKS AND UNCERTAINTIES

COVID-19

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. Throughout the pandemic, the Federal government has provided the School District with funds for increased operational costs to comply with health and safety protocols. Additional Federal funding and changes to operations are expected to continue into the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Benzie County Central School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2021

	Budgeted Amounts			Variances - Positive (Negative)	
	Original	Final	Actual (GAAP Basis)	Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	\$ 8,005,852	\$ 8,026,217	\$ 8,089,206	\$ 20,365	\$ 62,989
State revenues	4,481,949	5,835,571	5,869,754	1,353,622	34,183
Federal revenues	348,681	1,700,789	1,174,893	1,352,108	(525,896)
Other	404,070	473,257	708,204	69,187	234,947
Total revenues	13,240,552	16,035,834	15,842,057	2,795,282	(193,777)
Expenditures					
Instruction					
Elementary	3,030,428	3,379,304	2,985,726	(348,876)	393,578
Middle School	1,211,022	1,516,473	1,445,047	(305,451)	71,426
High School	1,701,199	1,873,405	1,760,610	(172,206)	112,795
High School Alt Ed	33,648	4,677	-	28,971	4,677
Pre-Kindergarten Learning Exp (GSRP)	90,097	164,538	135,473	(74,441)	29,065
Special Ed	1,198,026	1,325,155	1,173,850	(127,129)	151,305
At Risk	489,917	506,087	718,173	(16,170)	(212,086)
Title I	285,124	280,224	-	4,900	280,224
Bilingual Ed	1,131	1,131	-	-	1,131
Classroom Reduction	57,981	53,064	-	4,917	53,064
Vocation Ed	156,649	169,376	174,973	(12,727)	(5,597)
Total instruction	8,255,222	9,273,434	8,393,852	(1,018,212)	879,582
Supporting Services					
Guidance	244,769	267,853	252,855	(23,084)	14,998
Schools Improvement	27,032	31,689	32,355	(4,657)	(666)
Supervision/Direction of Inst Staff (GSRP)	68,560	113,959	95,678	(45,399)	18,281
Student Assessment (GSRP)	329	479	518	(150)	(39)
Board of Education	88,013	101,431	94,584	(13,418)	6,847
Central Business	315,141	338,147	294,531	(23,006)	43,616
School Administration	1,018,054	1,125,550	1,028,884	(107,496)	96,666
Fiscal Services	240,229	284,558	271,278	(44,329)	13,280
Business Services	58,359	139,678	108,625	(81,319)	31,053
Operations and Maintenance	1,504,802	1,698,094	1,569,969	(193,292)	128,125
Transportation	1,693,214	1,615,337	1,230,431	77,877	384,906
Staff/Personnel Serv (GSRP)	14,861	20,733	17,389	(5,872)	3,344
Technology	256,895	271,261	333,853	(14,366)	(62,592)
Auditorium	12,455	7,202	1,984	5,253	5,218
Athletics	241,515	281,138	280,047	(39,623)	1,091
Total supporting services	5,784,228	6,297,109	5,612,981	(512,881)	684,128
Debt service	16,600	67,698	2,095	(51,098)	65,603
Other	40,768	52,011	32,153	(11,243)	19,858
Total expenditures	14,096,818	15,690,252	14,041,081	(1,593,434)	1,649,171
REVENUES OVER EXPENDITURES	(856,266)	345,582	1,800,976	1,201,848	1,455,394
Fund balance, beginning of year	2,867,754	2,867,754	2,867,754	-	-
Fund balance, end of year	\$ 2,011,488	\$ 3,213,336	\$ 4,668,730	\$ 1,201,848	\$ 1,455,394

Benzie County Central School District

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

Michigan Public School Employees Retirement Plan

	<u>9/30/2020</u>	<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	0.07486012 %	0.07596172 %	0.08025912 %	0.08334516 %	0.08310744 %	0.08535000 %	0.08318000 %
School District's proportionate share of net pension liability	\$ 25,715,266	\$ 25,155,968	\$ 24,127,340	\$ 21,598,274	\$ 20,734,626	\$ 20,846,995	\$ 18,321,117
School District's covered payroll	\$ 6,691,335	\$ 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	384.31 %	381.70 %	363.85 %	306.29 %	297.91 %	290.63 %	256.57 %
Plan fiduciary net position as a percentage of total pension liability	59.72 %	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>6/30/2021</u>	<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	\$ 1,231,664	\$ 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>1,231,664</u>	<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>	<u>\$ -</u>
School District's covered payroll	\$ 6,578,105	\$ 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	18.72 %	18.13 %	17.43 %	17.63 %	18.59 %	23.29 %	21.74 %

Benzie County Central School District

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

Michigan Public School Employees Retirement Plan

	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>
School District's proportion of net OPEB liability	0.07514745 %	0.07522719 %	0.07775395 %	0.08345211 %
School District's proportionate share of net OPEB liability	\$ 4,025,850	\$ 5,399,618	\$ 6,180,624	\$ 7,390,077
School District's covered payroll (OPEB)	\$ 6,691,335	\$ 6,590,576	\$ 6,631,147	\$ 7,051,556
School District's proportionate share of net OPEB liability as a percentage of covered payroll	60.17 %	81.93 %	93.21 %	104.80 %
Plan fiduciary net position as a percentage of total OPEB liability	59.44 %	48.46 %	42.95 %	36.39 %

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Statutorily required OPEB contributions	\$ 520,994	\$ 532,578	\$ 523,635	\$ 484,084
OPEB contributions in relation to statutorily required contributions	<u>520,994</u>	<u>532,578</u>	<u>523,635</u>	<u>484,084</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll (OPEB)	\$ 6,578,105	\$ 6,728,027	\$ 6,614,964	\$ 6,679,991
OPEB contributions as a percentage of covered payroll	7.92 %	7.92 %	7.92 %	7.25 %

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

Benzie County Central School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2021

	Special Revenue Fund			Capital Project Fund	Total Non-Major Governmental
	Food Service	Early Childhood	Student Activity	2017 Capital Sinking Fund	
ASSETS					
Cash and cash equivalents	\$ 489,594	\$ 51,563	\$ 126,752	\$ 1,395,844	\$ 2,063,753
Prepaid expenditures	75,000	-	-	-	75,000
Other receivables	-	4,641	-	-	4,641
Intergovernmental receivables	57,869	-	-	-	57,869
Due from other funds	-	24,659	-	179,244	203,903
Inventory	16,388	-	-	-	16,388
	<u>\$ 638,851</u>	<u>\$ 80,863</u>	<u>\$ 126,752</u>	<u>\$ 1,575,088</u>	<u>\$ 2,421,554</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 52,541	\$ 9,786	\$ -	\$ 167,205	\$ 229,532
Unearned revenue	17,734	-	-	-	17,734
Due to other funds	87,355	25,491	-	-	112,846
	<u>157,630</u>	<u>35,277</u>	<u>-</u>	<u>167,205</u>	<u>360,112</u>
FUND BALANCES					
Nonspendable - inventory and prepaid expenditures	91,388	-	-	-	91,388
Restricted					
Capital projects	-	-	-	1,407,883	1,407,883
Food Service	389,833	-	-	-	389,833
Committed - student activities	-	-	126,752	-	126,752
Assigned - early childhood	-	45,586	-	-	45,586
	<u>481,221</u>	<u>45,586</u>	<u>126,752</u>	<u>1,407,883</u>	<u>2,061,442</u>
Total fund balances	481,221	45,586	126,752	1,407,883	2,061,442
Total liabilities and fund balances	<u>\$ 638,851</u>	<u>\$ 80,863</u>	<u>\$ 126,752</u>	<u>\$ 1,575,088</u>	<u>\$ 2,421,554</u>

Benzie County Central School District

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

Year Ended June 30, 2021

	<u>Special Revenue Fund</u>			<u>Capital Project Fund</u>	Total Non-Major Governmental
	<u>Food Service</u>	<u>Early Childhood</u>	<u>Student Activity</u>	<u>2017 Capital Sinking Fund</u>	
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 789,826	\$ 789,826
Interest	431	102	-	2,955	3,488
State revenues	68,067	14,034	-	-	82,101
Federal revenues	737,727	6,094	-	-	743,821
Other	40,806	140,686	121,272	4,876	307,640
	<u>847,031</u>	<u>160,916</u>	<u>121,272</u>	<u>797,657</u>	<u>1,926,876</u>
Total revenues					
Expenditures					
Food service	671,418	-	-	-	671,418
Early childhood	-	129,765	-	-	129,765
Student activities	-	-	85,820	-	85,820
Other	-	-	-	1,619	1,619
Capital outlay	60,155	-	-	422,093	482,248
	<u>731,573</u>	<u>129,765</u>	<u>85,820</u>	<u>423,712</u>	<u>1,370,870</u>
Total expenditures					
REVENUES OVER EXPENDITURES	115,458	31,151	35,452	373,945	556,006
Fund balance, beginning of year, <i>as restated</i>	<u>365,763</u>	<u>14,435</u>	<u>91,300</u>	<u>1,033,938</u>	<u>1,505,436</u>
Fund balance, end of year	<u>\$ 481,221</u>	<u>\$ 45,586</u>	<u>\$ 126,752</u>	<u>\$ 1,407,883</u>	<u>\$ 2,061,442</u>

FEDERAL PROGRAMS

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2020	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2021
U.S. Department of Education							
Passed through Michigan Department of Education							
Title I Part A Cluster Grants - Educationally Deprived 201530-2021	84.010	\$ 254,361	\$ -	\$ 353,898	\$ 183,376	\$ 254,361	\$ 70,985
Title IIA - Improving Teacher Quality 210520-2021	84.367	51,704	-	-	49,293	51,704	2,411
Title IV Part A Student Support and Academic Enrichment 210750-2021	84.424	18,598	-	21,685	18,598	18,598	-
Education Stabilization Funds							
Governor's Emergency Education Relief (GEER) Funds 203710-1920 201200-2021	84.425C	244,906	-	-	125,005	125,005	-
		89,822	-	-	89,822	89,822	-
Total Governor's Emergency Education Relief (GEER) Funds		334,728	-	-	214,827	214,827	-
Elementary and Secondary School Emergency Relief (ESSER) Funds	84.425D	119,901	-	-	-	119,901	119,901
Total Education Stabilization Funds		454,629	-	-	214,827	334,728	119,901
Total U.S. Department of Education		779,292	-	375,583	466,094	659,391	193,297
U.S. Department of Agriculture							
Passed through Michigan Department of Education							
Child Nutrition Cluster							
National School Lunch Program							
0902 - Unanticipated School Closure	10.555	-	69,910	489,021	69,910	-	-
USDA Commodities - Entitlement	10.555	-	-	47,740	45,002	45,002	-
Total National School Lunch/Commodities		-	69,910	536,761	114,912	45,002	-
1900 - Summer Food Service Program	10.559	633,553	-	-	633,553	683,758	50,205
Total Child Nutrition Cluster/Commodities		633,553	69,910	536,761	748,465	728,760	50,205
Child and Adult Care Food Program meals	10.558	8,056	-	13,193	8,967	8,967	-
Total U.S. Department of Agriculture		641,609	69,910	549,954	757,432	737,727	50,205

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2020	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2021
U.S. Department of Treasury							
Passed through Michigan Department of Education							
Child Care and Development Block Grant	93.575	-	20,700	20,700	20,700	-	-
Coronavirus Relief Fund	21.019	512,639	-	-	512,639	512,639	-
Total U.S. Department of Treasury		512,639	20,700	20,700	533,339	512,639	-
U.S. Department of Health and Human Services							
Passed through Northwest Education Services							
Medicaid - School Based Services	93.778	-	-	4,662	2,863	2,863	-
Total Federal Financial Assistance		\$ 1,933,540	\$ 90,610	\$ 950,899	\$ 1,759,728	\$ 1,912,620	\$ 243,502

Benzie County Central School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2021

- 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	\$ 1,912,620
Coronavirus Relief Fund - Child Care Relief Fund	<u>6,094</u>
Federal sources per financial statements	<u><u>\$ 1,918,714</u></u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
 Benzie County Central School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Benzie County Central School District** (the "School District") as of and for the year ended June 30, 2021, 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 November 30, 2021.

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. 2021-001, 2021-002, and 2021-003, that we consider to be material weaknesses.

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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 one instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs No. 2021-004, 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

Certified Public Accountants
Traverse City, Michigan

November 30, 2021



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

Board of Education
 Benzie County Central School District

Report on Compliance for Each Major Federal Program

We have audited *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, 2021. 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, 2021.

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

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

November 30, 2021

Benzie County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2021

PRIOR YEAR

See current year findings in section 2 for a repeat of prior year findings No. 2020-001 and 2020-002. There is no change in their status.

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.

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

Current Year Status: The food service director now performs a secondary review of applications and corrects application discrepancies, as applicable.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

4. The auditor's report does not disclose any material weaknesses in internal control over major programs.
5. The report over compliance for major programs was unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major programs were Title II, Part A (CFDA No. 84.367) and the Child Nutrition Cluster which includes: National School Lunch Program (CFDA No. 10.555) and Summer Food Service Program (CFDA No. 10.559).
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 2021-001 (repeat)

Preparation of Financial Statements

Material Weakness in Internal Controls over Financial Reporting

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 2021-002 (repeat)

Segregation of Duties

Material Weakness in Internal Controls over Financial Reporting

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 2 - Findings in Accordance with Governmental Auditing Standards - Continued

Finding Number 2021-003

Bank Reconciliations Not Prepared Timely

Material Weakness in Internal Controls over Financial Reporting

Criteria: Control procedures include reconciliation and comparison of assets with records. The preparation of bank reconciliations should be completed in a timely manner.

Condition: The School District did not reconcile the cash accounts in a timely manner. Bank reconciliations were performed for the entire fiscal year after year-end.

Cause: There was significant turnover in the accounting department and staff were not being trained to perform bank reconciliations. Additionally, the School District switched accounting software and activity was not properly updated in the system.

Effect: As a result of this condition, transactions were not recorded on a timely basis and transactions were not recorded in the proper accounting period during the fiscal year. Upon completion of the bank reconciliations, and recording of additional transactions, there was an immaterial difference between the cash recorded and the bank reconciliation.

Management's Response: The School District hired a new Director of Finance in April 2021 who completed the bank account reconciliations for the year and updated the new accounting software with the unrecorded transactions. Investigation into the cause of the uncorrected remaining District-wide difference will be made. The practice moving forward will be to have each month and account reconciled within thirty days of the statement date to ensure proper accounting has taken place. Each reconciliation will be signed off on by the Superintendent each month.

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

Finding Number 2021-004

**Late Audit Package Submission to the Michigan Department of Education
Material Instance of Noncompliance in Internal Controls over Financial Reporting**

Criteria: The State of Michigan requires public school districts to file a copy of their audit reporting package and management letter with the Michigan Department of Education by November 1.

Condition: The School District did not file the audit package with the Michigan Department of Education by November 1, 2021.

Cause: The audit was not complete and available for submission to the State by November 1 because the School District was working on account reconciliations after year-end and was not ready for the audit to begin in the planned timeframe needed to complete the audit timely.

Effect: As a result of this condition, 100% of state aid funding will be withheld until the audit package is filed with the Michigan Department of Education.

Management's Response: The School District will reconcile each bank account within thirty days of the statement date to ensure proper accounting. The Director of Finance and other business office staff will use the template created to properly reconcile in a timely manner. Each month the Superintendent will sign off on the completed reconciliation. It is the goal of the business office to have these accounts reconciled by July 20th at the end of each fiscal year to make sure the audit can be completed timely and the audit package can be filed with the State by the November 1st deadline.