

Beal City Public Schools

Financial Statements

June 30, 2016

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Beal City Public Schools
Members of the Board of Education and Administration
June 30, 2016

Members of the Board of Education

Denise McBride – President

Rod Cole – Vice President

Kari Rojas – Secretary

Robert Pasch – Treasurer

Curt Gottschalk – Trustee

Jane Finnerty – Trustee

Ron Neyer – Trustee

Administration

William Chilman – Superintendent

Jeff Jackson – High School Principal

Jason Wolf – Elementary Principal

Rod Freeze – Business Manager

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools

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 Beal City Public Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB Statements No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, and schedule of the school district's contributions, as identified in the table of contents, 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 inquiries 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beal City Public Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary 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, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Beal City Public Schools' basic financial statements as of and for the year ended June 30, 2015, which are not presented with the accompanying basic financial statements. In our report dated October 19, 2015, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Beal City Public Schools' basic financial statements as a whole. The 2015 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2015 information in the comparative supplementary schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016 on our consideration of Beal City Public Schools' 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 Beal City Public Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
October 13, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Beal City Public Schools (the District) management's discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address financial challenges in the years to come. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2016.

The following is an outline of how this financial report is presented.

Section 3
MD&A

Management's Discussion and Analysis
(required supplementary information)

Section 4
Basic Financial Statements

District – Wide Financial Statements
Fund Financial Statements
Internal Service Fund
Fiduciary Fund
Notes to the Financial Statements

Section 5
Required Supplementary Information

Budgetary Comparison Schedule
Schedule of the School District's Proportionate Share of the
Net Pension Liability
Schedule of the School District's Contributions Michigan
Public School Employees Retirement Plan

Section 6
Other Supplementary Information

Combining Balance Sheets
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances
Comparative Balance Sheet
Schedule of Revenues Compared to Budget
Schedule of Expenses Compared to Budget
Schedule of Outstanding Bonded Indebtedness

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

As noted above, Section 4 contains two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements in accordance with GASB 34.

District Wide Financial Statements

The District wide financial statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. To be consistent with full accrual basis accounting, all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

The fund financial statements are reported using the modified accrual method of accounting. Under this method of accounting, revenues are recorded when received or when they are measurable, and expenditures are accounted for in the period those goods and services were used to provide school programs. In addition, capital asset purchases are expensed in totality in the year purchased and not recorded as an asset. Debt payments are recorded as expenditures when they are paid and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Funds, Capital Project Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived primarily from property taxes, state and federal distributions and grants. The Special Revenue Fund is used to record the activities of the food service operation. The Debt Retirement Funds are used to record the funding and payment of principal and interest on bonded debt. The Capital Project Fund is used to record the funding and payment of building construction and major site improvements. The Internal Service Fund was closed during this fiscal year because the school switched back to a fully insured medical plan. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Financial Analysis of the District as a Whole

Summary of Statement of Net Position

	2015	2016
Assets		
Current assets	\$2,684,913	\$2,799,397
Capital assets	10,977,463	10,980,342
less accumulated depreciation	<u>(5,686,871)</u>	<u>(5,869,807)</u>
Capital Assets, net book value	<u>5,290,592</u>	<u>5,110,535</u>
 Total assets	 7,975,505	 7,909,932
 Deferred Outflows of Resources	 <u>995,243</u>	 <u>1,058,096</u>
 Total assets and deferred outflows of resources	 <u>8,970,748</u>	 <u>8,968,028</u>
 Liabilities		
Current liabilities	1,163,837	1,248,637
Long-term liabilities	<u>11,154,966</u>	<u>11,569,494</u>
 Total liabilities	 12,318,803	 12,818,131
 Deferred Inflows of Resources	 <u>862,397</u>	 <u>264,414</u>
 Total liabilities and deferred inflows of resources	 <u>13,181,200</u>	 <u>13,082,545</u>
 Net Position		
Net investment in capital assets	1,725,202	1,978,132
Restricted for debt service	97,003	130,289
Restricted for food service	83,019	-
Restricted for grants	101,914	129,971
Unrestricted (deficit)	<u>(6,217,590)</u>	<u>(6,352,909)</u>
 Total net position (deficit)	 <u><u>\$(4,210,452)</u></u>	 <u><u>(\$4,114,517)</u></u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Summary of the Statement of Net Position

As indicated by the statement above, total net position is (\$4,114,517), a deficit caused by the implementation of the Governmental Accounting Standards Board's (GASB) Statement 68 which requires the District to record their proportionate share of the net pension liability of the Michigan Public Schools Employee Retirement System. Net position can be separated into the following categories: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets is a combination of capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$10,980,342 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$5,869,807. Many capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters and is recorded as a liability in the statement of net position.

Net investment in capital assets is \$1,978,132. Net position restricted for debt service is \$130,289 and consists of cash balances in the debt service funds. Net position restricted for grants is \$129,971 and consists of tribal grants and other grant dollars awarded but not yet spent. The remaining (\$6,352,909) of net position is an unrestricted deficit. The unrestricted amount is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results and GASB 68.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Summary of Statement of Activities

	2015	2016
Revenues		
Charges for Services	\$ 239,308	\$230,673
Operating Capital Grants and Contributions	1,358,911	1,408,506
General Revenues	5,742,861	5,668,628
Total revenue	7,341,080	7,307,807
Expenses		
Instruction	3,991,890	4,496,238
Supporting services	2,252,580	2,343,938
Food services	268,620	270,068
Community Services	6,362	3,718
Interest on long-term debt	107,371	97,910
Total expenses	6,626,823	7,211,872
Increase in net position	714,257	95,935
Net position beginning	2,941,426	(4,210,452)
Prior period adjustment	(7,866,135)	-
Net position beginning, restated (deficit)	(4,924,709)	(4,210,452)
Net position ending (deficit)	\$ (4,210,452)	\$ (4,114,517)

The total decrease in revenue from 2014/2015 to 2015/2016 at the District wide level was \$33,273. The majority of that decrease was in the General Fund where state aid saw a decrease in revenues over last year due to decreased enrollment.

However, Operating grants & contributions increased by \$49,595 due to the increase in payments from the Michigan Public Schools Retirement System for the UAAL rate stabilization payments.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The 2015/2016 expenses increased over the 2014/2015 at the District wide level by \$585,049. The Instruction expenses increased during the current fiscal year by \$504,348. The Instruction expense increased year over year as a result of increases in teacher wages, health insurance and pension costs. The amount of money spent on grants also increased over the previous year in instructional areas. The support services expenses increase of \$91,358 was primarily due to the purchase of copiers/printers for the school, new radios for the buses, and spending of the Morey grant for new lighting and sound equipment. The district also spent additional money on training teachers on the NWEA testing implementation. The district did save some money in labor and benefit costs as a result of retirements. The district also saved money year over year in bus fuel and bus repairs. The utility expenses were also less in 2015/2016.

Revenues

Local revenues are primarily made up of property taxes to fund operating expenses and retire debt of previous bond issues. Local revenues also include grant awards from the Saginaw Chippewa Indian Tribe in the amount of \$153,987. The tribe was extremely generous to the district this year. Other sources of local revenue include fees and charges for services such as hot lunch, athletic gate receipts, and sports participation fees.

State revenues account for the majority of the District's revenues and consist primarily of the per student foundation allowance. State revenues made up approximately 85% of the District's general fund revenues in 2015/2016. This ties the District directly to the overall economy of the State of Michigan.

Federal sources include Title grants in the General Fund and monies for the Food Service Fund. Federal revenues totaled less than \$750,000 alleviating the need for a single audit of federal funds.

Interdistrict sources of revenue consist of the County special education tax and the vocational education tax collected and distributed by the local Intermediate School District.

Property Taxes

A major portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Funds. Property tax revenue totaled \$850,014. This amount was obtained through a combination of two voter approved millage levies totaling 18 mills on the taxable value of non-homestead properties and 6 mills on the taxable value of commercial personal property for the District's operation and a voter approved 7 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments of bond issues. Tax revenues saw an increase in 2015/2016. We expected this increase as taxable values increased in 2015 with a positive growth percentage. Taxable values determine the amount of local tax income for the operating revenues of the General Fund, and also determine the Debt Retirement Funds revenue generated each year. While the State of Michigan will make up the shortfall in operating revenue in the General Fund, the Debt Retirement Fund is entirely dependent on the 7 mills allocated on taxable values to generate the funds necessary to pay off the districts long term debt. Fortunately, taxable values have increased for the last couple of years which is demonstrated in the following table of taxable value history.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Year	Taxable Value	Growth
2009	81,878,623	4.68%
2010	81,673,543	(0.25%)
2011	81,544,258	(0.16%)
2012	82,561,107	1.25%
2013	81,046,450	(1.83%)
2014	82,930,946	2.33%
2015	85,472,686	3.06%
2016	86,666,159	1.40%

State Aid Foundation Allowance

A significant portion of state funding to the District is received through the foundation allowance. The foundation allowance is funding from the state based on student enrollment. Student enrollment is blended at 90% of current year October count and 10% of the prior February count. The blended enrollment of Beal City Public Schools for 2015/2016 was 696.64 students, a decrease of 14.86 students from the 2014/2015 student enrollment of 711.5, this decrease resulted in decreased state per pupil funding of approximately \$109,830 compared to the year prior. The State of Michigan establishes per student foundation allowance on an annual basis.

Capital Assets and Long-term Debt

Capital Assets

On June 30, 2016 the District had \$5,110,535 invested in a broad range of capital assets as illustrated below:

Land and Construction In Process	\$277,593
Buildings and additions	7,241,226
Site improvements	1,763,938
Equipment and furniture	539,338
Buses and other vehicles	768,025
Fiber optic network	<u>390,222</u>
Subtotal	10,980,342
Less accumulated depreciation	<u>5,869,807</u>
Net capital assets	<u>\$ 5,110,535</u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Long-term Debt

At the end of the current fiscal year, the Beal City Public School district had total general obligation bonded debt outstanding of \$3,137,000. The general obligation bonded debt outstanding consists of three bond issues. The 2012 refunding issue of the 2002 bond issue for the sports complex, the 2014 refunding issue of the 1996 issue for the addition to the high school and the 2012 bond issue to pay off the school bond loan fund. Other long term debt includes, compensated absences, retirement incentives, and a capital lease of copy machine equipment. Total outstanding long term debt of the district at the end of the current year is \$3,441,769. Both the compensated absences and the retirement incentives are estimates of potential costs. Teachers are eligible for a retirement incentive of \$9,000 if they retire from the MPERS the first year they are eligible to retire. The district has estimated the likelihood of a teacher qualifying for this incentive and multiplied the likelihood by the total available benefit of \$9,000. Compensated absences consist of termination pay, accrued sick time benefits and accrued vacation and personal time. The long term debt is estimated on the premise that all staff will qualify for a payout of leave time when they end their employment with the district.

General Fund Budgetary Highlights

Original vs. Actual Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

The district amended its budget twice during the 2015/2016 school year. For the fiscal year 2015/2016, the budget was amended in March of 2016 and June of 2016.

General Fund Revenues Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2015/2016	\$6,130,536	\$6,418,210	\$6,475,673	\$57,463

The District's actual General Fund revenues were more than the final budget by \$57,463. The majority of this variance is due to the Capital Lease proceeds for the new copiers that was not included in the final amended budget, which totaled \$57,105.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

General Fund Expenditures Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2015/2016	\$6,497,343	\$6,680,793	\$6,530,500	\$(150,293)

The District's General Fund expenditures were less than the final expenditure budget by \$150,293. Tribal grants received from the Saginaw Chippewa Indian Tribe and the Mt Pleasant Area Community Foundation (MPACF) make up the largest portion of the discrepancy in budgeted to actual expenditures. Many grants were budgeted for, but not spent in the 2015/2016 fiscal year. The unspent grants that were budgeted to spend, totaled \$129,971. Those tribal grant and MPACF budget items remaining at the end of the 2015/2016 fiscal year will be carried over to the 2016/2017 budget. The expenditures in most of the function areas were less than the final expenditure budget. Individually they were not significant.

Excess of Expenditures over appropriations

The School District did spend more on capital outlay than was budgeted as a result of the Copier Capital lease for \$57,105 was not in the final budget of 15/16. The copiers were not delivered until mid-June and management had trouble getting detailed cost data from the vendor.

Economic Factors and Next Year's Budgets and Rates

The minimum foundation allowance for 2016/2017 has been set at \$7,511 per student. The State has appropriated additional funds to reflect the actuarially estimated costs of the required state share of the MPERS Unfunded Actuarial Accrued Liability (UAAL) to maintain the UAAL cap at 20.96%. While the district will receive an increase in the UAAL payment the district will be required to make monthly payments to the Office of Retirement Services equaling the amount of UAAL revenue received.

Under the direction of our State Governor, Mr. Rick Snyder, we have seen a number of education reform laws pass in the last two years. It is easy to get the feeling that educators are being attacked by our republican lead legislature. Many of the laws passed in the last two years seem to be more about punishing educators, and educator unions in particular, as they do about improving education in the State of Michigan.

Two of those educational reforms that will have a huge impact on the world of education and our school district's budget are online education and dual enrollment. In our school district these reforms have added to the budget as we are required to pay for the online education and dual enrollment without the ability to reduce staff so they have only added to the problems of educational finance in our school district.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The State legislator passed a retirement reform bill in 2012 to try to ensure that the Michigan Public School Retirement System will be sustainable for years to come. The reforms affected all current, retired, and future school personnel. Retirees saw a decrease in the amount of insurance premium subsidy they received from the Michigan Public Schools Retirement System. New hires will no longer be offered an insurance premium subsidy upon retirement and all current public school employees in the State of Michigan were required to make choices about the amount they will contribute to their retirement benefits and the amount they will receive upon retirement.

The legislature has agreed to limit the unfunded liability amount of the retirement rate to 20.96%. While this should help keep the cost of retirement down, there is the possibility that it will decrease other funding provided to public schools. The legislature only has so much money to work with. If they use dollars to keep the retirement rate down, they will have to make up for that use of dollars somewhere else in the budget. So while the retirement rate may be more stable, other funding may be decreased to make up for it.

Mr. William C. Chilman IV is now starting his tenth year as the Superintendent of Beal City Public Schools. Mr. Chilman believes the three most important jobs a Superintendent has are to first and for most, improve student achievement. Secondly, during these financially difficult times, maintain the district's fiscal integrity, which is becoming even more challenging with ongoing changes at the state level. Third, but not least of all, promote the school district and provide positive school and community relations throughout the region. These three jobs have become part of our three board goals, so the board members and Mr. Chilman are working together as a team.

While Mr. Chilman has been at Beal City Public Schools for the last nine years, he has been faced with staffing challenges heading into the 2016/2017 year. The district lost their long term business manager and replaced her with a new business manager who has 18 years of experience as a CPA, however, he does not have any school accounting experience. The challenges of learning a new accounting system and new reporting requirements has been a challenge, but the reports are getting filed and he is working toward receiving certification from the MSBO as a school CFO. The District has also lost the Elementary Principal. The Elementary Principal was very involved with the Title I & II programs which received Federal Funds. The Business Manager and Mr Chilman will be working with the new Elementary Principal to keep this program running smoothly.

The District also closed the alternative education program effective for the 2016/2017 school year. The program was facing decreasing enrollment due to many factors, including online education. The projected enrollment for the 2016/2017 school year in Alternative Education was so low that the funds for that program would have been significantly lower than the costs. Administration decided those resources could be better utilized elsewhere.

Beal City has two mottos that we live by. One is "Educational Teamwork Today Equals Educational Excellence Tomorrow". Our staff, students, parents and the community work together to create an environment where all parties can achieve excellence. The second motto is "a BIG education in a small school environment". Again, we all work hard each day to balance the financial part of education with the educational opportunities we provide to our students, and we are getting it done with true success. Beal City Public Schools continues to be recognized in the region and around the state as an educational leader academically, artistically, and athletically.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The Beal City Board of Education and the Beal City Education Association (BCEA) settled a three year contract in June of 2016. Teachers will see small % increases each year and steps in all three years of the contract. The teachers have moved back to MESSA insurance. Beginning January of 2014 the teaching staff was given the option of MESSA choices II or the MESSA ABC plan which is a high deductible insurance plan with a health saving component. The remainder of the staff also moved to MESSA on July 1, 2014. Administration is currently looking at options to provide the employees with a different health insurance option that may or may not save the district money, but will almost certainly save the employees money. Both the MESSA Choices II plan and the MESSA ABC plan exceed the allowable cap established by our State legislature so all employees will be contributing to the cost of their health insurance. Those who receive dental and vision benefits will be paying 20% of the premium for those insurance benefits also.

District administration has been diligent about learning the details of the Patient Protection and Affordable Care Act. It is not easy to keep up to speed on the provisions of the law and when they take effect. In fact, the effective date of some provisions of the law have been moved back to start later than originally planned. One of those provisions is the "play or pay" rule which states that an employer must offer affordable health care to all staff who work an average of 30 hours per week. This was to start at the beginning of the district's insurance plan year after January 1, 2014. That date has been pushed back to January 1, 2016 for employers with 100 or fewer employees. The district has partnered with SET/SEG insurance providers to track hours for all current staff to ensure that we do not have employees who work over 30 hours per week that do not receive insurance. There is the potential of significant added costs to employee benefits as we have a number of employees not receiving health benefits who work at or over 30 hours per week.

Student count numbers for fall of 2016 have not yet been determined. As an overall district, we do anticipate a small increase in enrollment. In 2016/2017 teachers will be receiving a step increase and a 1.0% increase on the salary schedule. The districts original budget had a large deficit spend component. The administration is working diligently at finding ways to control costs and yet provide the best education possible.

The Board of Education is committed to ensuring the financial stability of the school district. As there seems to be no end in sight to the poor economic conditions of the State of Michigan, the Board feels the need to be very cautious with spending. The uncertainty of State funding is an ongoing problem. The instability and lack of state funding creates a real challenge to Michigan's public schools.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the finances for the Beal City Public Schools for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Beal City Public Schools Central Office, 3180 W Beal City Road, Mt. Pleasant, MI 48858.

BASIC FINANCIAL STATEMENTS

Beal City Public Schools
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,754,725
Taxes receivable	1,254
Accounts receivable	501
Due from other governmental units	1,011,060
Inventory	834
Prepaid items	31,023
Capital assets not being depreciated	277,593
Capital assets - net of accumulated depreciation	<u>4,832,942</u>
 Total assets	 <u>7,909,932</u>
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	972,742
Deferred amount on debt refunding	<u>85,354</u>
 Total deferred outflows of resources	 <u>1,058,096</u>
 Total assets and deferred outflows of resources	 <u>8,968,028</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 105,293
Accrued expenditures	314,822
Accrued salaries payable	322,877
Unearned revenue	4,235
Noncurrent liabilities	
Net pension liability	8,629,135
Debt due within one year	501,410
Debt due in more than one year	<u>2,940,359</u>
Total liabilities	12,818,131
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	<u>264,414</u>
Total liabilities and deferred inflows of resources	<u>13,082,545</u>
Net Position	
Net investment in capital assets	1,978,132
Restricted for	
Debt service	130,289
Grants	129,971
Unrestricted (deficit)	<u>(6,352,909)</u>
Total net position	<u><u>\$ (4,114,517)</u></u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Functions/Programs					
Governmental activities					
Instruction	\$ 4,496,238	\$ -	\$ 1,261,707	\$ -	\$ (3,234,531)
Supporting services	2,343,938	73,906	973	-	(2,269,059)
Food services	270,068	156,767	145,826	-	32,525
Community services	3,718	-	-	-	(3,718)
Interest on long-term debt	97,910	-	-	-	(97,910)
Total governmental activities	<u>\$ 7,211,872</u>	<u>\$ 230,673</u>	<u>\$ 1,408,506</u>	<u>\$ -</u>	<u>(5,572,693)</u>
General revenues					
Property taxes, levied for general purposes					252,903
Property taxes, levied for debt service					597,111
State aid - unrestricted					4,806,767
Interest and investment earnings					2,846
Other					9,001
Total general revenues					<u>5,668,628</u>
Change in net position					95,935
Net position - beginning					<u>(4,210,452)</u>
Net position - ending					<u>\$ (4,114,517)</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
		Fund Public Improvement		
Assets				
Cash	\$ 1,379,431	\$ 136,927	\$ 238,367	\$ 1,754,725
Taxes receivable	-	-	1,254	1,254
Accounts receivable	501	-	-	501
Due from other funds	-	150,000	7,079	157,079
Due from other governmental units	1,008,956	-	2,104	1,011,060
Inventory	-	-	834	834
Prepaid items	31,023	-	-	31,023
Total assets	<u>\$ 2,419,911</u>	<u>\$ 286,927</u>	<u>\$ 249,638</u>	<u>\$ 2,956,476</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 15,293	\$ 90,000	\$ -	\$ 105,293
Due to other funds	157,079	-	-	157,079
Accrued expenditures	307,254	-	304	307,558
Accrued salaries payable	322,877	-	-	322,877
Unearned revenue	-	-	4,235	4,235
Total liabilities	<u>802,503</u>	<u>90,000</u>	<u>4,539</u>	<u>897,042</u>
Fund Balance				
Non-spendable				
Inventory	-	-	834	834
Prepaid items	31,023	-	-	31,023
Restricted for				
Food service	-	-	106,712	106,712
Debt service	-	-	137,553	137,553
Grants	129,971	-	-	129,971
Assigned				
Future budget deficit	477,308	-	-	477,308
Capital projects	-	196,927	-	196,927
Unassigned	979,106	-	-	979,106
Total fund balance	<u>1,617,408</u>	<u>196,927</u>	<u>245,099</u>	<u>2,059,434</u>
Total liabilities and fund balance	<u>\$ 2,419,911</u>	<u>\$ 286,927</u>	<u>\$ 249,638</u>	<u>\$ 2,956,476</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
of Governmental Activities
June 30, 2016

Total fund balances for governmental funds	\$ 2,059,434
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	277,593
Capital assets - net of accumulated depreciation	4,832,942
Deferred outflows (inflows) of resources	
Deferred outflows of resources from debt refunding	85,354
Deferred inflows of resources resulting from net pension liability	(264,414)
Deferred outflows of resources resulting from net pension liability	972,742
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(7,264)
Retirement incentive payable	(59,670)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(164,342)
Bonds payable	(3,160,652)
Other loans payable and liabilities	(57,105)
Net pension liability	<u>(8,629,135)</u>
Net position of governmental activities	<u><u>\$ (4,114,517)</u></u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund Public Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 548,641	\$ 170	\$ 754,247	\$ 1,303,058
State sources	5,498,507	-	19,127	5,517,634
Federal sources	80,847	-	133,695	214,542
Interdistrict sources	272,573	-	-	272,573
	<u>6,400,568</u>	<u>170</u>	<u>907,069</u>	<u>7,307,807</u>
Expenditures				
Current				
Education				
Instruction	4,084,841	-	-	4,084,841
Supporting services	2,108,822	-	-	2,108,822
Food services	-	-	266,441	266,441
Community services	3,718	-	-	3,718
Capital outlay	159,228	106,450	704	266,382
Debt service				
Principal	22,398	-	477,000	499,398
Interest and other expenditures	1,493	-	95,610	97,103
	<u>6,380,500</u>	<u>106,450</u>	<u>839,755</u>	<u>7,326,705</u>
Excess (deficiency) of revenues over expenditures	<u>20,068</u>	<u>(106,280)</u>	<u>67,314</u>	<u>(18,898)</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund Public Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Capital lease proceeds	\$ 57,105	\$ -	\$ -	\$ 57,105
Transfers in	18,000	150,000	-	168,000
Transfers out	(150,000)	-	(18,000)	(168,000)
Total other financing sources (uses)	(74,895)	150,000	(18,000)	57,105
Net change in fund balance	(54,827)	43,720	49,314	38,207
Fund balance - beginning	1,672,235	153,207	195,785	2,021,227
Fund balance - ending	<u>\$ 1,617,408</u>	<u>\$ 196,927</u>	<u>\$ 245,099</u>	<u>\$ 2,059,434</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances - Total governmental funds	\$	38,207
<p>Total change in net position reported for governmental activities in the statement of activities is different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Depreciation expense		(335,142)
Capital outlay		175,664
Loss on sale of capital assets (net book value)		(20,579)
<p>Expenses are recorded when incurred in the statement of activities.</p>		
Interest		8,499
Retirement incentive payable		(2,231)
Compensated absences		(30,555)
<p>The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.</p>		
Net change in net pension liability		(828,198)
Net change in the deferral of resources related to the net pension liability		786,006
Net change between actual pension contributions and the cost of benefits earned net of employee contributions		(113,713)
<p>Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.</p>		
Debt issued		(57,105)
Repayments of long-term debt		499,398
Amortization of premiums		2,151
Amortization of deferred amount on refunding		(11,457)
Internal Service Fund revenues and expenses are included in the governmental activities in the statement of activities		(15,010)
Change in net position of governmental activities	\$	95,935

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Net Position
June 30, 2016

Net Position
Unrestricted

\$ -

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Revenues, Expenditures and Changes in Fund Net Position
For the Year Ended June 30, 2016

Operating expenses

Health, dental, and vision insurance premiums and claims

\$ 3,691

Nonoperating revenues (expenditures)

Interest income

2

Refund to General Fund

(11,321)

Total nonoperating revenues (expenditures)

(11,319)

Net change in net position

(15,010)

Net position - beginning

15,010

Net position - ending

\$ -

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities

Return of deposit from insurance company	\$	9,309
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Cash flows from investing activities

Interest received		2
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Cash flows from noncapital financing activities

Refund to General Fund		(11,321)
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Net change in cash		(2,010)
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Cash - beginning		2,010
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Cash - ending	\$	<u><u>-</u></u>
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Reconciliation of operating loss to net cash provided by operating activities

Operating loss	\$	(3,691)
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Adjustments to reconcile operating loss to net cash provided by operating activities - changes in assets and liabilities		
Decrease in prepaid items		13,000

Net cash provided by operating activities	\$	<u><u>9,309</u></u>
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Beal City Public Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 116,979</u>
Liabilities	
Due to student groups	<u>\$ 116,979</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Beal City Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Proprietary fund and fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. The only proprietary fund maintained is an Internal Service Fund that is used to account for the financing of risk management services provided to other funds on a cost reimbursement basis. The Internal Service Fund maintained by the School District is the Self Insurance Fund, which includes transactions related to the School District's risk management programs for medical claims.

The School District reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Capital Projects Fund – The Public Improvement Fund is used to account for financial resources to be used for construction or major renovation of facilities and is funded by General Fund transfers and interest earnings.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund includes the Food Service Fund. The annual operating deficit generated by these activities is generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Internal Service Fund – The School District's proprietary fund is the Internal Service Fund. The purpose of the fund is to finance services provided to other funds of the School District on a cost-reimbursement basis. The Internal Service Fund maintained by the School District accounts for medical, dental, and vision insurance coverage. It is funded through transfers primarily from the General Fund in amounts equal to normal estimated risk management claims.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2016, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 98% of the School District's tax roll lies within the Townships of Nottawa, Isabella and Deerfield.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before July 31. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Isabella and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Site improvements	10-20 years
Equipment and furniture	5-25 years
Fiber optic network	20 years
Buses and other vehicles	5-10 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Compensated Absences – Retiring staff are paid four (4) percent of the staff members current annual salary, provided the staff member has been employed by the school district for at least ten (10) years for teachers and twenty five (25) years for support staff. This liability is measured using the termination method.

Staff members may accumulate a maximum of one hundred eighty-three (183) unused sick days. Upon retirement or termination of employment, unused sick days are paid at 50% of the teachers' sub rate times the number of unused days up to a maximum of 100 days. Ten (10) years of service as an employee of the Beal City Public Schools is necessary in order to qualify. There is no provision for payment of unused personal days for teaching staff.

For all non teaching staff accumulated personal time and vacation time will be paid out upon leaving the district if the employee notifies the district of their intent to leave the district two weeks prior to their last day worked. Personal and vacation time will be paid out at the individual's hourly or daily rate.

The current portion of any accrued sick, personal or vacation pay cannot be reasonably estimated and, as such, is not included as a current liability.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Pension – For purposes of measuring the net pension 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 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.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. There were no current year deferred inflows of resources. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature. The School District does not have any assigned fund balance at year end.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 72 *Fair Value Measurement and Application*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending June 30, 2016.

GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement 76 is effective for the year ending June 30, 2016.

GASB No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. Also, it establishes additional disclosure requirements for qualifying external investment pools that make that election and for governments that participate in such external investment pools. Statement 79 is effective for the year ending June 30, 2016.

GASB No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 is effective for the year ending June 30, 2016.

Upcoming Accounting and Reporting Changes

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will

enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Beal City Public Schools
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GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Business	\$ 122,419	\$ 125,451	\$ 3,032
Capital outlay	133,729	159,228	25,499

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$6,352,909 as of June 30, 2016. There are no other governmental funds with a deficit.

Note 3 - Deposits

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 1,754,725	\$ 116,979	\$ 1,871,704

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 1,871,704</u>
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Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Credit risk – State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, the School District’s bank balance was \$1,884,077. Of the bank balance, \$1,634,077 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 187,593	\$ -	\$ -	\$ 187,593
Construction-in-progress	-	90,000	-	90,000
Total capital assets not being depreciated	187,593	90,000	-	277,593
Capital assets being depreciated				
Buildings and additions	7,241,226	-	-	7,241,226
Site improvements	1,763,938	-	-	1,763,938
Equipment and furniture	626,459	85,664	172,785	539,338
Fiber optic network	390,222	-	-	390,222
Buses and other vehicles	768,025	-	-	768,025
Total capital assets being depreciated	10,789,870	85,664	172,785	10,702,749
Less accumulated depreciation for				
Buildings and additions	3,312,987	148,603	-	3,461,590
Site improvements	1,043,837	90,132	-	1,133,969
Equipment and furniture	429,482	36,524	152,206	313,800
Fiber optic network	341,442	19,511	-	360,953
Buses and other vehicles	559,123	40,372	-	599,495
Total accumulated depreciation	5,686,871	335,142	152,206	5,869,807
Net capital assets being depreciated	5,102,999	(249,478)	20,579	4,832,942
Net capital assets	\$ 5,290,592	\$ (159,478)	\$ 20,579	\$ 5,110,535

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Depreciation expense was charged to activities of the School District as follows:

Governmental activities

Instruction	\$ 220,524
Support services	114,109
Food services	509
Total governmental activities	\$ 335,142

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Roof project	\$ 154,025	\$ 64,025	\$ 90,000

Contracts payable at year end represent actual contractor billings are recorded as a liability in the capital projects fund. The project is expected to be completed by the end of fiscal year 2017.

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 7,079
General Fund	Public Improvement Fund	150,000
		\$ 157,079

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in			
General Fund	\$ -	\$ 18,000	\$ 18,000
Public Improvement Fund	150,000	-	150,000
	\$ 150,000	\$ 18,000	\$ 168,000

The transfer from the Food Service Fund to the General Fund was to reimburse the General Fund for indirect costs. The transfer from the General Fund to the Public Improvement Fund was made to cover the costs of School District improvements.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Student deposits	\$ 4,235
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Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Note 7 - Leases

Capital Lease

The School District has a capital lease for copy machines. The future minimum lease payments are as follows:

Year ending June 30,	
2017	\$ 12,787
2018	12,787
2019	12,787
2020	12,787
2021	<u>12,787</u>
Total minimum lease payments	63,935
Less amount representing interest	<u>(6,830)</u>
Present value of minimum lease payments	<u>\$ 57,105</u>

The assets acquired through capital leases are as follows:

Assets	
Equipment and furniture	\$ 48,289
Less accumulated depreciation	<u>(805)</u>
Total	<u>\$ 47,484</u>

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, capital leases, and retirement incentives.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
General obligation bonds	\$ 3,614,000	\$ -	\$ 477,000	\$ 3,137,000	\$ 491,000
Capital lease	22,398	57,105	22,398	57,105	10,410
Compensated absences	133,787	30,555	-	164,342	-
Retirement incentives	57,439	2,231	-	59,670	-
Premium on bonds	25,803	-	2,151	23,652	-
Total	<u>\$ 3,853,427</u>	<u>\$ 89,891</u>	<u>\$ 501,549</u>	<u>\$ 3,441,769</u>	<u>\$ 501,410</u>

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the General Fund.

General obligation bonds payable at year end, consist of the following:

\$1,157,000 serial bond due in annual installments of \$71,000 to \$81,000 through May 1, 2027, interest at 3.45%.	\$ 845,000
\$1,009,000 serial bond due in annual installments of \$112,000 to \$240,000 through May 1, 2021, interest at 2.55% to 3.95%.	832,000
\$2,110,000 serial bond due in annual installments of \$240,000 to \$380,000 through May 1, 2021, interest at 1.50% to 2.60%.	<u>1,460,000</u>
Total general obligation bonded debt	<u>\$ 3,137,000</u>

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 491,000	\$ 87,173	\$ 578,173
2018	511,000	77,091	588,091
2019	535,000	64,987	599,987
2020	561,000	50,695	611,695
2021	589,000	33,261	622,261
2022-2026	379,000	50,957	429,957
2027	71,000	2,450	73,450
Total	\$ 3,137,000	\$ 366,614	\$ 3,503,614

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$137,553 to pay this debt. Future debt and interest will be payable from future tax levies.

Compensated Absences

Accrued compensated absences at year end, consist of \$70,478 of termination pay, \$75,848 in accrued sick time benefits, and \$18,016 of vacation and personal time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Retirement Incentive

In the event a teacher retires from the district, as soon as he/she is eligible for full benefits under the Michigan Public Schools Retirement System or at the end of the school year during which he/she becomes eligible for full benefits, the teacher shall be paid \$3,000 per year on January 1 following his/her retirement for three consecutive years. The School District has estimated the likelihood of a teacher qualifying for this incentive and multiplied the likelihood by the total available benefit of \$9,000. The School District has recorded a long term liability of \$59,670 at year end.

Deferred Amount on Refunding

The School District issued bonds in 2012 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$34,253. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2027. The balance at June 30, 2016 is \$25,016.

The School District issued bonds in 2012 to advance refund and retire the school bond loan fund debt. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$39,608. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2016 is \$32,660.

The School District issued bonds in 2014 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$40,000. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2016 is \$27,678.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

The following summarizes the activity of the deferred amount on refunding:

	Beginning Balance	Additions	Reductions	Ending Balance
2012 Refunding Bonds	\$ 27,384	\$ -	\$ 2,368	\$ 25,016
2012 Refunding Bonds, Series B	35,683	-	3,023	32,660
2014 Refunding Bonds	33,744	-	6,066	27,678
Total	\$ 96,811	\$ -	\$ 11,457	\$ 85,354

Note 9 - Risk Management

The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

Note 10 - Pension Plans and Post-Employment Benefits

Organization

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 136 of 1945,

recodified, and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The 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 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 at www.michigan.gov/mpsers-cafr.

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 for DB plan members are determined by final average compensation and years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. 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.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Contributions and Funding Status

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

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

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

Required contributions to the pension plan from the School District were \$681,544 for the year ending September 30, 2015.

Net Pension Liability

At June 30, 2016, the School District reported a liability of \$8,629,135 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement

period. At September 30, 2015, the School District's proportionate share percent was 0.03532907 percent, which was a decrease of 0.0001 percent since the prior measurement date.

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

For the year ended June 30, 2016, the School District recognized total pension expense of \$724,911. The School District's actual contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$570,400, \$727,200, and \$527,100, respectively.

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 28,582
Changes in assumptions	212,468	-
Net difference between projected and actual earnings on pension plan investments	44,045	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	16,484
Employer contributions subsequent to the measurement date	716,229	219,348
	<u>\$ 972,742</u>	<u>\$ 264,414</u>

\$716,229 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. \$219,348 reported as deferred inflows of resources relating to pensions resulting from

Beal City Public Schools
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June 30, 2016

employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2017 when the related payments reduce the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30	Amount
2016	\$ 19,779
2017	19,779
2018	8,258
2019	163,631
	\$ 211,447

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, 2014
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%

- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.7158 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Long-Term Expected 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, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.9%
Alternative Investment Pools	18.00%	9.2%
International Equity	16.00%	7.2%
Fixed Income Pools	10.50%	0.9%
Real Estate and Infrastructure Pools	10.00%	4.3%
Absolute Return Pools	15.50%	6.0%
Short Term Investment Pools	2.00%	0.0%
	100.00%	

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

Discount Rate

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

projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 11,125,167	\$ 8,629,135	\$ 6,524,878

**Non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR (www.michigan.gov/mpers-cafr).

Payables to the Pension Plan

There were no significant payables to the pension plan that are not ordinary accruals to the district.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2016

Post-Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2015 through September 30, 2015, and October 1, 2015 through June 30, 2016, the employer contribution rate ranged from 2.20% to 2.71% and 6.40% to 6.83%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$187,800, \$102,300, and \$213,600, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2016, the School District had contributions in the amount of \$337,719 to the MPERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 10.53% for the year ending June 30, 2016.

Note 11 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 346,476	\$ 547,953	\$ 548,641	\$ 688
State sources	5,429,570	5,498,343	5,498,507	164
Federal sources	71,990	79,841	80,847	1,006
Interdistrict sources	263,000	272,573	272,573	-
Total revenues	6,111,036	6,398,710	6,400,568	1,858
Expenditures				
Instruction				
Basic programs	3,086,267	3,221,288	3,106,493	(114,795)
Added needs	811,339	864,604	859,969	(4,635)
Adult and continuing education	105,994	120,879	118,379	(2,500)
Supporting services				
Pupil	96,083	97,123	95,430	(1,693)
Instructional staff	180,763	146,486	143,698	(2,788)
General administration	209,980	203,318	202,722	(596)
School administration	364,297	371,382	366,730	(4,652)
Business	120,035	122,419	125,451	3,032
Operations and maintenance	439,731	443,970	432,503	(11,467)
Pupil transportation services	446,035	380,280	346,893	(33,387)
Central	121,871	132,614	131,460	(1,154)
Athletics	262,407	265,092	263,935	(1,157)
Community services	3,327	3,718	3,718	-
Capital outlay	75,323	133,729	159,228	25,499
Debt service				
Principal	22,398	22,398	22,398	-
Interest and fiscal charges	1,493	1,493	1,493	-
Total expenditures	6,347,343	6,530,793	6,380,500	(150,293)

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$ (236,307)	\$ (132,083)	\$ 20,068	\$ 152,151
Other Financing Sources (Uses)				
Capital leases	-	-	57,105	57,105
Transfers in	19,500	19,500	18,000	(1,500)
Transfers out	(150,000)	(150,000)	(150,000)	-
Total other financing sources (uses)	(130,500)	(130,500)	(74,895)	55,605
Net change in fund balance	(366,807)	(262,583)	(54,827)	207,756
Fund balance - beginning	1,672,235	1,672,235	1,672,235	-
Fund balance - ending	<u>\$ 1,305,428</u>	<u>\$ 1,409,652</u>	<u>\$ 1,617,408</u>	<u>\$ 207,756</u>

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Reporting unit's proportion of net pension liability (%)	0.04%	0.04%								
B. Reporting unit's proportionate share of net pension liability	\$ 8,629,135	\$ 7,800,937								
C. Reporting unit's covered-employee payroll	\$ 2,946,941	\$ 3,026,438								
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	292.82%	257.76%								
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%								

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Statutorily required contributions	\$ 570,419	\$ 727,215								
B. Contributions in relation to statutorily required contributions	<u>570,419</u>	<u>727,215</u>								
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
D. Reporting unit's covered- employee payroll	2,962,315	2,956,960								
E. Contributions as a percentage of covered-employee payroll	19.26%	24.59%								

Notes:

Benefit changes - There were no changes of benefit terms in 2016.

Changes in assumptions - There were no changes of benefit assumptions in 2016.

OTHER SUPPLEMENTARY INFORMATION

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Special	Debt Service Funds			Total
	Revenue Fund			2012 SBLF	Nonmajor
	Food Services	2012	2014	Refunding	Governmental
					Funds
Assets					
Cash	\$ 102,068	\$ 44,337	\$ 48,255	\$ 43,707	\$ 238,367
Taxes receivable	-	251	763	240	1,254
Due from other funds	7,079	-	-	-	7,079
Due from other governmental units	2,104	-	-	-	2,104
Inventory	834	-	-	-	834
Total assets	\$ 112,085	\$ 44,588	\$ 49,018	\$ 43,947	\$ 249,638
Liabilities and Fund Balance					
Liabilities					
Accrued expenditures	\$ 304	\$ -	\$ -	\$ -	\$ 304
Unearned revenue	4,235	-	-	-	4,235
Total liabilities	4,539	-	-	-	4,539
Fund Balance					
Non-spendable					
Inventory	834	-	-	-	834
Restricted for					
Food service	106,712	-	-	-	106,712
Debt service	-	44,588	49,018	43,947	137,553
Total fund balance	107,546	44,588	49,018	43,947	245,099
Total liabilities and fund balance	\$ 112,085	\$ 44,588	\$ 49,018	\$ 43,947	\$ 249,638

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	Special	Debt Service Funds			Total
	Revenue Fund			2012 SBLF Refunding	Nonmajor Governmental Funds
	Food Services	2012	2014		
Revenues					
Local sources	\$ 156,850	\$ 119,491	\$ 362,683	\$ 115,223	\$ 754,247
State sources	19,127	-	-	-	19,127
Federal sources	133,695	-	-	-	133,695
Total revenues	309,672	119,491	362,683	115,223	907,069
Expenditures					
Current					
Food services	266,441	-	-	-	266,441
Capital outlay	704	-	-	-	704
Debt service					
Principal	-	80,000	320,000	77,000	477,000
Interest and other expenditures	-	32,025	33,638	29,947	95,610
Total expenditures	267,145	112,025	353,638	106,947	839,755
Excess of revenues over expenditures	42,527	7,466	9,045	8,276	67,314
Other Financing Uses					
Transfers out	(18,000)	-	-	-	(18,000)
Net change in fund balance	24,527	7,466	9,045	8,276	49,314
Fund balance - beginning	83,019	37,122	39,973	35,671	195,785
Fund balance - ending	\$ 107,546	\$ 44,588	\$ 49,018	\$ 43,947	\$ 245,099

Beal City Public Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2016

	2016	2015
Assets		
Cash	\$ 1,379,431	\$ 1,269,365
Accounts receivable	501	1,900
Due from other governmental units	1,008,956	1,027,412
Prepaid items	31,023	30,439
Total assets	\$ 2,419,911	\$ 2,329,116
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 15,293	\$ 11,371
Due to other funds	157,079	13,586
Accrued expenditures	307,254	319,921
Accrued salaries payable	322,877	312,003
Total liabilities	802,503	656,881
Fund Balance		
Non-spendable		
Prepaid items	31,023	30,439
Restricted for		
Grants	129,971	101,914
Assigned		
Future budget deficit	477,308	366,807
Unassigned	979,106	1,173,075
Total fund balance	1,617,408	1,672,235
Total liabilities and fund balance	\$ 2,419,911	\$ 2,329,116

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 239,401	\$ 252,903	\$ 252,903	\$ -
Transportation fees	1,500	2,400	2,916	516
Earnings on investments	2,075	2,585	2,307	(278)
Student activities	68,000	64,722	65,172	450
Other local revenues	35,500	225,343	225,343	-
Total revenues from local sources	<u>346,476</u>	<u>547,953</u>	<u>548,641</u>	<u>688</u>
Revenues from state sources				
Grants - unrestricted	4,832,895	4,806,768	4,806,767	(1)
Grants - restricted	596,675	691,575	691,740	165
Total revenues from state sources	<u>5,429,570</u>	<u>5,498,343</u>	<u>5,498,507</u>	<u>164</u>
Revenues from federal sources				
Grants	71,990	79,841	80,847	1,006
Interdistrict sources				
ISD collected millage	263,000	272,573	272,573	-
Other financing sources				
Capital leases	-	-	57,105	57,105
Transfers in	19,500	19,500	18,000	(1,500)
Total other financing sources	<u>19,500</u>	<u>19,500</u>	<u>75,105</u>	<u>55,605</u>
Total revenue and other financing sources	<u>\$ 6,130,536</u>	<u>\$ 6,418,210</u>	<u>\$ 6,475,673</u>	<u>\$ 57,463</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 903,122	\$ 893,979	\$ 892,018	\$ (1,961)
Employee benefits	630,732	665,611	659,065	(6,546)
Purchased services	31,674	39,592	36,125	(3,467)
Supplies and materials	26,514	68,705	18,686	(50,019)
Total elementary	<u>1,592,042</u>	<u>1,667,887</u>	<u>1,605,894</u>	<u>(61,993)</u>
Basic program - high school				
Salaries	806,744	786,164	786,969	805
Employee benefits	543,796	551,590	549,285	(2,305)
Purchased services	101,666	94,794	87,234	(7,560)
Supplies and materials	42,019	113,463	69,721	(43,742)
Other	-	7,390	7,390	-
Total high school	<u>1,494,225</u>	<u>1,553,401</u>	<u>1,500,599</u>	<u>(52,802)</u>
Added needs - special education				
Salaries	240,066	226,417	226,764	347
Employee benefits	158,838	161,770	159,154	(2,616)
Purchased services	49,237	58,665	58,661	(4)
Supplies and materials	1,300	7,400	6,661	(739)
Total special education	<u>449,441</u>	<u>454,252</u>	<u>451,240</u>	<u>(3,012)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	\$ 89,083	\$ 85,270	\$ 85,269	\$ (1)
Employee benefits	55,828	59,082	58,933	(149)
Purchased services	-	4,050	4,049	(1)
Supplies and materials	1,500	2,807	2,807	-
Total compensatory education	<u>146,411</u>	<u>151,209</u>	<u>151,058</u>	<u>(151)</u>
Added needs - career and technical education				
Salaries	27,632	36,702	36,531	(171)
Employee benefits	12,982	19,624	19,468	(156)
Purchased services	328	293	293	-
Supplies and materials	3,545	4,445	3,300	(1,145)
Other	171,000	198,079	198,079	-
Total career and technical education	<u>215,487</u>	<u>259,143</u>	<u>257,671</u>	<u>(1,472)</u>
Adult and continuing education - basic				
Salaries	62,461	69,666	69,022	(644)
Employee benefits	34,910	43,523	41,630	(1,893)
Purchased services	1,848	900	937	37
Supplies and materials	6,775	6,790	6,790	-
Total basic	<u>105,994</u>	<u>120,879</u>	<u>118,379</u>	<u>(2,500)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	\$ 52,630	\$ 52,304	\$ 52,174	\$ (130)
Employee benefits	41,516	43,329	41,808	(1,521)
Supplies and materials	150	-	-	-
Total guidance services	<u>94,296</u>	<u>95,633</u>	<u>93,982</u>	<u>(1,651)</u>
Pupil - other support services				
Salaries	1,275	1,000	1,000	-
Employee benefits	512	490	448	(42)
Total other pupil support services	<u>1,787</u>	<u>1,490</u>	<u>1,448</u>	<u>(42)</u>
Instructional staff - improvement of education				
Salaries	2,000	7,000	6,640	(360)
Employee benefits	5,684	3,027	2,974	(53)
Purchased services	33,440	21,758	21,366	(392)
Supplies and materials	250	367	284	(83)
Total improvement of education	<u>41,374</u>	<u>32,152</u>	<u>31,264</u>	<u>(888)</u>
Instructional staff - educational media services				
Salaries	-	187	187	-
Employee benefits	-	82	83	1
Purchased services	17,816	18,385	17,161	(1,224)
Supplies and materials	6,026	5,985	5,156	(829)
Total educational media services	<u>23,842</u>	<u>24,639</u>	<u>22,587</u>	<u>(2,052)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - technology assisted instruction				
Salaries	\$ 47,635	\$ 41,166	\$ 41,166	\$ -
Employee benefits	35,212	24,615	24,767	152
Purchased services	19,500	11,304	11,304	-
Other	100	-	-	-
Total technology assisted instruction	102,447	77,085	77,237	152
Instructional staff - academic student assessment				
Purchased services	11,000	11,836	11,836	-
Supplies and materials	2,100	774	774	-
Total academic student assessment	13,100	12,610	12,610	-
General administration - board of education				
Purchased services	26,190	17,590	17,051	(539)
Other	11,700	14,066	13,613	(453)
Total board of education	37,890	31,656	30,664	(992)
General administration - executive administration				
Salaries	103,748	103,748	103,748	-
Employee benefits	63,692	64,314	64,652	338
Purchased services	900	600	713	113
Supplies and materials	3,500	3,000	2,945	(55)
Other	250	-	-	-
Total executive administration	172,090	171,662	172,058	396

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	\$ 199,646	\$ 201,958	\$ 200,976	\$ (982)
Employee benefits	152,441	158,032	156,705	(1,327)
Purchased services	2,450	2,050	2,217	167
Supplies and materials	6,400	6,775	4,644	(2,131)
Other	1,160	1,310	1,280	(30)
Total office of the principal	<u>362,097</u>	<u>370,125</u>	<u>365,822</u>	<u>(4,303)</u>
School administration - other				
Supplies and materials	<u>2,200</u>	<u>1,257</u>	<u>908</u>	<u>(349)</u>
Business - fiscal services				
Salaries	53,762	55,822	55,022	(800)
Employee benefits	45,027	44,829	45,310	481
Purchased services	8,400	8,425	8,487	62
Supplies and materials	100	22	22	-
Other	300	793	1,467	674
Total fiscal services	<u>107,589</u>	<u>109,891</u>	<u>110,308</u>	<u>417</u>
Business - internal services				
Purchased services	<u>4,109</u>	<u>6,000</u>	<u>8,609</u>	<u>2,609</u>
Business - other				
Purchased services	4,837	5,282	5,282	-
Other	3,500	1,246	1,252	6
Total other business	<u>8,337</u>	<u>6,528</u>	<u>6,534</u>	<u>6</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Operations and maintenance - operating building services				
Salaries	\$ 139,706	\$ 130,975	\$ 133,249	\$ 2,274
Employee benefits	91,264	90,724	91,069	345
Purchased services	121,486	153,122	140,273	(12,849)
Supplies and materials	87,075	68,145	66,908	(1,237)
Other	200	1,004	1,004	-
Total operating building services	<u>439,731</u>	<u>443,970</u>	<u>432,503</u>	<u>(11,467)</u>
Pupil transportation services				
Salaries	119,423	113,532	112,733	(799)
Employee benefits	162,951	162,828	143,374	(19,454)
Purchased services	117,311	74,230	62,333	(11,897)
Supplies and materials	46,100	29,550	28,313	(1,237)
Other	250	140	140	-
Total transportation services	<u>446,035</u>	<u>380,280</u>	<u>346,893</u>	<u>(33,387)</u>
Central - communication services				
Purchased services	<u>20,000</u>	<u>20,000</u>	<u>19,198</u>	<u>(802)</u>
Central - staff/personnel services				
Salaries	26,140	28,200	28,200	-
Employee benefits	20,040	20,327	20,501	174
Purchased services	15,500	13,800	13,839	39
Other	1,100	1,500	1,460	(40)
Total staff/personnel services	<u>62,780</u>	<u>63,827</u>	<u>64,000</u>	<u>173</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - support services technology				
Salaries	\$ 11,909	\$ 10,324	\$ 10,292	\$ (32)
Employee benefits	8,682	6,163	6,192	29
Purchased services	18,000	31,600	31,187	(413)
Supplies and materials	-	500	416	(84)
Other	500	200	175	(25)
Total support services technology	<u>39,091</u>	<u>48,787</u>	<u>48,262</u>	<u>(525)</u>
Athletic activities				
Salaries	82,789	94,693	94,469	(224)
Employee benefits	45,911	47,362	48,231	869
Purchased services	106,512	97,842	97,564	(278)
Supplies and materials	13,250	10,650	9,754	(896)
Other	13,945	14,545	13,917	(628)
Total athletic activities	<u>262,407</u>	<u>265,092</u>	<u>263,935</u>	<u>(1,157)</u>
Community services - non-public school pupils				
Salaries	1,799	2,096	2,096	-
Employee benefits	1,064	1,158	1,158	-
Purchased services	464	464	464	-
Total non-public school pupils	<u>3,327</u>	<u>3,718</u>	<u>3,718</u>	<u>-</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Capital outlay				
Basic program - elementary	\$ 2,500	\$ 3,338	\$ 3,338	\$ -
Basic program - high school	22,267	23,667	23,583	(84)
Added needs - special education	550	352	352	-
Added needs - compensatory education	100	-	-	-
Added needs - career and technical education	-	50	46	(4)
Adult and continuing education - basic	200	-	-	-
Instructional staff - technology assisted instruction	5,000	12,370	11,262	(1,108)
General administration - executive administration	150	200	200	-
School administration - office of the principal	200	150	134	(16)
Business - internal services	-	-	57,105	57,105
Operations and maintenance - operating building services	28,000	47,038	46,509	(529)
Central - support services technology	5,500	14,425	8,624	(5,801)
Athletics	10,660	32,139	8,075	(24,064)
Other support services	196	-	-	-
Total capital outlay	<u>75,323</u>	<u>133,729</u>	<u>159,228</u>	<u>25,499</u>
Debt service				
Principal	22,398	22,398	22,398	-
Interest and other expenditures	1,493	1,493	1,493	-
Total debt service	<u>23,891</u>	<u>23,891</u>	<u>23,891</u>	<u>-</u>
Other financing uses				
Transfers out	150,000	150,000	150,000	-
Total expenditures and financing uses	<u>\$ 6,497,343</u>	<u>\$ 6,680,793</u>	<u>\$ 6,530,500</u>	<u>\$ (150,293)</u>

Beal City Public Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30,	2014	2012 Series A	2012 Series B	Total
2017	\$ 300,000	\$ 79,000	\$ 112,000	\$ 491,000
2018	280,000	78,000	153,000	511,000
2019	260,000	77,000	198,000	535,000
2020	240,000	81,000	240,000	561,000
2021	380,000	80,000	129,000	589,000
2022	-	79,000	-	79,000
2023	-	77,000	-	77,000
2024	-	76,000	-	76,000
2025	-	74,000	-	74,000
2026	-	73,000	-	73,000
2027	-	71,000	-	71,000
Total	<u>\$ 1,460,000</u>	<u>\$ 845,000</u>	<u>\$ 832,000</u>	<u>\$ 3,137,000</u>
Principal payments due the first day of	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	
Interest rate	1.50% - 2.60%	3.45%	2.55% - 3.95%	
Original issue	<u>\$ 2,110,000</u>	<u>\$ 1,157,000</u>	<u>\$ 1,009,000</u>	

**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***

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools

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 Beal City Public Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Beal City Public Schools' basic financial statements, and have issued our report thereon dated October 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Beal City Public Schools' 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 Beal City Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Beal City Public Schools' 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 entity'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness, listed as finding 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beal City Public Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Beal City Public Schools' Response to Findings

Beal City Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Beal City Public Schools' 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 entity'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.

Yeo & Yeo, P.C.

Alma, Michigan
October 13, 2016

Beal City Public Schools
Schedule of Findings and Responses
June 30, 2016

GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2016-001 - Material Weakness

- Criteria:** Michigan Department of Education Bulletin 1022 Michigan Public School Accounting Manual states that financial statements and records should be free of errors that could change the users' overall assessment of the entity's finances.
- Condition:** A material adjustment was required during the audit due to the following:
- The Board of Education approved a transfer from the general fund to the public improvement fund for \$150,000. The transfer was recorded in the general ledger appropriately as a transfer out in the general fund and a transfer in for the public improvement fund. The offset of the entry being cash. However, the fund transfer was not initiated on the banking side until more than a month after year end. Therefore, it was necessary to reclassify the \$150,000 recorded in the cash accounts of the aforementioned funds to the respective due from other funds and due to other funds accounts.
- The School District entered into a capital lease during June 2016 for copiers. The fund statements were not properly adjusted for this lease. Therefore, it was necessary to record an adjustment of \$57,105 for capital lease proceeds and capital outlay expenditures.
- Cause and Effect:** The adjustment was posted as a result of audit procedures in order to fairly state the balance. This adjustment had a material effect on the financial statements.
- Recommendation:** We recommend that journal entries to record cash transfers not be posted until the transfer has been initiated with the bank. We also recommend that management obtain and review the accounting guidance which discusses the proper recording of capital lease transaction for governmental funds to familiarize themselves with such guidance.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See page 7 - 4 for the corrective action plan from management.

Beal City Public Schools
Corrective Action Plan
June 30, 2016

Beal City Public Schools

Jeff Jackson
High School Principal
(989) 644-3944

William C. Chilman IV
Superintendent

Jason Johnston
Elementary Principal
(989) 644-2740

3180 W BEAL CITY ROAD * MOUNT PLEASANT, MICHIGAN 48858
PHONE (989) 644-3901 * FAX (989) 644-5847

Correct Action Plan (CAP) for Beal City Public Schools

Contact Person responsible for the CAP
Business Manager Rodney Freeze
Finding 2016-001

Capital Action Plan for Bank Transfers

Background:

The Beal City Public School Board approved a transfer from the General Fund to the Capital Projects Fund. The journal entry was made in the accounting system, however, the transfer of funds was not done at the bank.

Corrective Plan:

After approval of a bank transfer by the School Board, the Business Manager of the School will verify the transfer has occurred. The Business Manager will require a transfer ticket from the bank showing the accounts the transfer occurred in, prior to making a Journal Entry in the accounting system.

The Completion Date:

The Business Manager transfers funds for paper payroll checks every two weeks. The confirmation number for the transfers have been entered in an excel spreadsheet and a copy of the bank confirmation is printed and attached to the bi-weekly payroll. Large transfers do not occur often and no transfers have occurred since the audit finding. The system is established immediately for all transfers. The next transfer is not anticipated to occur until June of 2017.



William Chilman IV, Superintendent
Beal City Public Schools

**Beal City Public Schools
Corrective Action Plan
June 30, 2016**

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Corrective Action Plan for Capital Leases:

Background:

Beal City Public Schools entered into a Capital Lease with MOS for copiers and printers. The Lease was signed in May of 2016 and Administration knew at that time what the monthly payments were for the next five years. However, the Capital Lease Proceeds and the Capital Lease Expenditures were not recorded in the accounting system at the time the lease was signed. The final budget also should have been updated to record the Capital Lease.

Corrective Plan:

The Business Manager has obtained additional guidance on how to account for Capital Leases.

Completion Date:

The proper accounting guidance will be followed the next time the School District executes a capital lease.



William Chilman IV, Superintendent
Beal City Public Schools



7810 N. Alger Road
Alma, MI 48801
Phone (989) 463-6108
Fax (989) 463-8560

October 13, 2016

Management and the Board of Education
Beal City Public Schools
3117 Elias Road
Mt. Pleasant, MI 48858

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Beal City Public Schools as of and for the year ended June 30, 2016, and have issued our report dated October 13, 2016. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Alma, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated April 21, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Statement (GASB) No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of the retirement incentive payable is based on the number of teachers employed by the School District at year end, along with an estimated number of years until retirement. These factors, along with the incentive amount per the contract are used to determine the present value of the estimate using a discount rate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above GASBS will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity and data backup best practices

The School District's data is critically important. There are millions of ways data can be compromised. It is vitally important that all employees have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a School District's information is targeted by malware or a phishing attack. A School District's vital information is always a moment away from being compromised. Encouraging and educating employees to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a School District surviving a cyber-attack or losing valuable data and time. Every School District should know the answer to two questions when looking at data backup solutions.

1. How long can my District survive a network outage?

Many School Districts assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.

2. Does our District understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all School Districts should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all company data in the event of a disaster is another.

Audit and FID Submission Deadline

Beginning in the previous year, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Fiscal Year (FY) 2017 School Aid

- The Omnibus Education Bill (Senate Bill 801) for FY 2017 has been passed by the legislature. It has been presented to the Governor for signature. There is always the possibility of vetoes. Following are some highlights of the bill:
- The per pupil Foundation Grants for FY 2017 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2016 foundation grant resulting in the lowest foundation for FY 2017 being \$7,511 and the maximum state guaranteed foundation being \$8,229.
- A new Section 20m would provide hold harmless districts with the difference in per pupil funding between \$60 and the increase in their foundation which is limited to the rate of inflation (.1% in this case).
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$389,685,500.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2015-16.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- An additional \$90 million is appropriated in Section 147c to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Accrued Liability (UAL) and maintain the UAL cap at 20.96%.

Other School Aid “Boilerplate” Changes

- Section 18 has been amended to require that the FID data and audited financial statements must be consistent or school aid must be withheld.
- Section 51a(15) has been amended to state that there will be a 10% state school aid penalty for a district or ISD that does not comply with the language in Section 51a(14) that requires the pupil’s resident district and/or ISD to provide special education services and cover special education added costs for pupils educated in a Public School Academy who reside outside of the ISD in which the academy is located.
- The Section 101 Instructional Day requirement will go from a minimum of 175 days to a minimum of 180 days beginning with the 2016-17 school year.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2013-2014 or 2014-2015 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UB&AA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UB&AA, including but not limited to general fund deficits, should be reported as financial statement findings in the audit report. UB&AA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

The following material misstatements were detected as a result of our audit procedures and corrected by management:

The Board of Education approved a transfer from the general fund to the public improvement fund for \$150,000. The transfer was recorded in the general ledger appropriately as a transfer out in the general fund and a transfer in for the public improvement fund. The offset of the entry being cash. However, the fund transfer was not initiated on the banking side until more than a month after year end. Therefore, it was necessary to reclassify the \$150,000 recorded in the cash accounts of the aforementioned funds to the respective due from other funds and due to other funds accounts.

The School District entered into a capital lease during June 2016 for copiers. The fund statements were not properly adjusted for this lease. Therefore, it was necessary to record an adjustment of \$57,105 for capital lease proceeds and capital outlay expenditures.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB No. 72, 76, 79, and 82, *Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants, and Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: 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*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of school district's proportionate share of net pension liability, schedule of school district's contributions, and budgetary comparison information, we 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 inquiries of management regarding 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.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of Beal City Public Schools as of and for the year ended June 30, 2016, we considered Beal City Public Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion 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.

However, during our audit we became aware of two matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated October 13, 2016, on the financial statements of Beal City Public Schools. Our comments and recommendations regarding those matters are:

Payroll Report Documentation

During the payroll process retirement related data by employee is uploaded to the Office of Retirement Services (ORS). ORS's system evaluates the data uploaded and provides a feedback verification report. This report identifies discrepancies between retirement contributions reported by the School District and the amounts calculated within the ORS system. The report is intended to be reviewed upon receipt to ensure the School District is properly calculating retirement amounts. During our review of the payroll process we noted that this report is being received and reviewed for discrepancies, but that review is not documented.

We recommend that the individual reviewing the report sign off on the report once they have finished their review. We are aware that the report is received in a spreadsheet, and that the School District wishes to maintain documents in a format easily accessible within the document management software. Therefore, it would be reasonable for the individual to add their sign off, by initialing and dating, within the spreadsheet itself.

Bank Reconciliation Review

The business manager obtains the monthly bank statements and prepares the reconciliation. After the reconciliation is completed, there is no review by another individual of this reconciliation.

Due to the limited number of individuals in the business office responsible for recording financial transaction, we believe that adding a review of the bank reconciliation by another individual would strengthen internal controls. Therefore, we recommend that an individual be assigned to this task, likely the superintendent. The review should consist of verifying the reconciliation amount matches the general ledger, scanning transactions for unusual items, and properly signing off and dating the reconciliation when the review is complete.