

Beal City Public Schools

Financial Statements

June 30, 2017



Table of Contents

<u>Section</u>		<u>Page</u>
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of	
	Governmental Funds to the Statement of Net Position of Governmental Activities	4 - 6
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
	Reconciliation of the Statement of Revenues, Expenditures and	
	Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 - 10
	Notes to the Financial Statements	4 - 11

<u>Section</u>		<u>Page</u>
5	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	5 – 1
	Schedule of the School District’s Proportionate Share of the Net Pension Liability	5 – 3
	Schedule of the School District’s Contributions	5 – 4
6	Other Supplementary Information	
	Nonmajor Governmental Funds	
	Combining Balance Sheet	6 - 1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 - 2
	General Fund	
	Comparative Balance Sheet	6 - 3
	Schedule of Revenues Compared to Budget	6 - 4
	Schedule of Expenditures Compared to Budget	6 - 5
	Schedule of Outstanding Bonded Indebtedness	6 - 13
7	Government Auditing Standards Requirements	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	7 - 1
	Schedule of Findings and Responses	7 - 3

Beal City Public Schools
Members of the Board of Education and Administration
June 30, 2017

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 Johnston – Elementary Principal

Rod Freeze – Business Manager



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Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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, 2016, which are not presented with the accompanying basic financial statements. In our report dated October 13, 2016, 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 2016 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 2016 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 2016 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 September 1, 2017 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
September 1, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

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, 2017.

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
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, 2017**

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 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, 2017**

Financial Analysis of the District as a Whole

Summary of Statement of Net Position

	2016	2017
Assets		
Current assets	\$2,799,397	\$2,770,551
Capital assets	10,980,342	11,031,832
less accumulated depreciation	<u>(5,869,807)</u>	<u>(6,086,780)</u>
Capital Assets, net book value	5,110,535	4,945,052
 Total assets	 7,909,932	 7,715,603
 Deferred Outflows of Resources	 <u>1,058,096</u>	 <u>1,347,970</u>
 Total assets and deferred outflows of resources	 <u>8,968,028</u>	 <u>9,063,573</u>
 Liabilities		
Current liabilities	1,248,637	1,186,977
Long-term liabilities	<u>11,569,494</u>	<u>11,395,565</u>
 Total liabilities	 12,818,131	 12,582,542
 Deferred Inflows of Resources	 <u>264,414</u>	 <u>315,676</u>
 Total liabilities and deferred inflows of resources	 <u>13,082,545</u>	 <u>12,898,218</u>
 Net Position		
Net investment in capital assets	1,978,132	2,303,786
Restricted for debt service	130,289	170,596
Restricted for grants	129,971	107,465
Unrestricted (deficit)	<u>(6,352,909)</u>	<u>(6,416,492)</u>
 Total net position	 <u><u>\$(4,114,517)</u></u>	 <u><u>(\$3,834,645)</u></u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Summary of the Statement of Net Position

As indicated by the statement above, total net position is (\$3,834,645), 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 \$11,031,832 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 \$6,086,780. 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 \$2,303,786. Net position restricted for debt service is \$170,596 and consists of cash balances in the debt service funds. Net position restricted for grants is \$107,465 and consists of tribal grants and other grant dollars awarded but not yet spent. The remaining (\$6,416,492) 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, 2017**

Summary of Statement of Activities

	2016	2017
Revenues		
Charges for Services	\$ 230,673	\$ 223,071
Operating Capital Grants and Contributions	1,408,506	1,355,200
General Revenues	5,668,628	5,815,161
Total revenue	7,307,807	7,393,432
Expenses		
Instruction	4,496,238	4,381,264
Supporting services	2,343,938	2,338,455
Food services	270,068	288,646
Community Services	3,718	6,126
Interest on long-term debt	97,910	99,069
Total expenses	7,211,872	7,113,560
Increase in net position	95,935	279,872
Net position beginning (deficit)	(4,210,452)	(4,114,517)
Net position ending (deficit)	\$ (4,114,517)	\$ (3,834,645)

Revenues increased in 2016/2017 over 2015/2016 in General Revenue due to an increase of 12 students and also due to an increase of per pupil funding of \$120 per student. The Charges for Services decreased in 2016/2017 compared to 2015/2016 due to a decrease in catering revenue and also due to fewer lunches being served. This was offset some by an increase in gate receipts because the school hosted two local football teams with large attendance. BCHS also hosted more MHSAA tournament games. Operating grants & contributions decreased in 2016/2017 compared to 2015/2016 due to a decrease in local grants of approximately \$100,000 and an increase of approximately \$42,000 in the payments for the UAAL rate stabilization payments.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

The 2016/2017 expenses decreased from the 2015/2016 at the District wide level by \$98,312. The Instruction expenses decreased during the current fiscal year by \$114,974. The Instruction expense decreased as a result of closing the alternative education program saving the district approximately \$95,000. There were increases in teacher wages, health insurance and pension costs, however, with the large savings as a result of closing the alternative education program and other cost savings enacted by the district, it resulted in an overall decrease in instructional costs. The amount of money spent from grants increased over the previous year in instructional areas, this created additional expenses in the instructional areas. Grant money was used to purchase new elementary ELA textbooks in the elementary. The support services expenses decreased by \$5,483 was primarily due to a reduction of grant money spent. The district did save some money in labor and benefit costs as a result of long term staff retiring or going to another district. The district also saved money in support services as a result of closing the alternative education because of reduced rent, and internet expense.

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 \$87,545. 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 87% of the District's general fund revenues in 2016/2017. 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 \$863,616. 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 2016/2017. We expected this increase as taxable values increased in 2016 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.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Fortunately, taxable values have increased for the last couple of years which is demonstrated in the following table of taxable value history.

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%
2017	89,570,633	3.30%

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 2016/2017 was 702.25 students, an increase of 5.61 students from the 2015/2016 student enrollment of 696.64, this increase resulted in increased state per pupil funding of approximately \$42,137 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, 2017 the District had \$4,945,052 invested in a broad range of capital assets as illustrated below:

Land	\$187,593
Buildings and additions	7,395,251
Site improvements	1,763,938
Equipment and furniture	510,834
Buses and other vehicles	783,994
Fiber optic network	<u>390,222</u>
Subtotal	11,031,832
Less accumulated depreciation	<u>6,086,780</u>
Net capital assets	<u>\$ 4,945,052</u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

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 \$2,646,000. 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 \$2,939,737. 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 once during the 2016/2017 school year. For the fiscal year 2016/2017, the budget was amended in June of 2017.

General Fund Revenues Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2016/2017	\$6,293,050	\$6,493,079	\$6,488,103	\$4,976

The District's actual General Fund revenues were less than the final budget by \$4,976. The difference in revenues from the final budget to actual was mainly due to the difference between indirect costs budgeted and the actual indirect cost reimbursement actually charged to the Food Services Fund.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

General Fund Expenditures Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2016/2017	\$6,770,358	\$6,516,315	\$6,443,239	\$(73,076)

The District's General Fund expenditures were less than the final expenditure budget by \$73,076. 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 2016/2017 fiscal year. The unspent grants that were budgeted to spend, totaled \$107,465 as of 6/30/2017. Those tribal grant budget items remaining at the end of the 2016/2017 fiscal year will be carried over to the 2017/2018 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 \$406.03 more on special education, \$67.61 more on Guidance Services, \$184.33 on Communication Services, \$111.30 on Staff/Personnel services than budgeted due to benefits costing a little more than projected. The district also spent \$85.13 more than budgeted on Long Term Debt Service than what was budgeted due to a difference in amortization schedules. All the other functions in the budget were spent below the budgeted amounts.

Economic Factors and Next Year's Budgets and Rates

The minimum foundation allowance for 2017/2018 has been set at \$7,631 per student. The State has appropriated additional funds to reflect the actuarially estimated costs of the required state share of the MPSERS 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. The State has also increased the amount the school will receive for our At Risk students. The school is working to determine how best to meet the needs of our At Risk students and best utilize this additional funding source. At the same time we have also been informed the amount the School will receive for our Title program will be decreasing. While the foundation allowance has increased, so has the cost of meeting all of the new requirements implemented by the State.

Under the direction of our State Governor, Mr. Rick Snyder, we have seen a number of education reform laws pass in the past few 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 few years seem to be more about punishing educators, and educator unions in particular, as they do about improving education in the State of Michigan.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

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.

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. In 2017, the State legislature again passed a retirement reform bill, creating yet another pension program to maintain and account for. The new retirement program is more of a 401K type program. The State is still offering a defined benefit retirement program under the new system, however; if the funding falls below 85% for two years in a row the employee and the employer will have an increased contribution to try to get the funding above the 85% of being fully funded. The new program will be for any new hires after February 1, 2018.

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 eleventh 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 ten years, he was 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 had 18 years of experience as a CPA, however, he did not have any school accounting experience. The challenges of learning a new accounting system and new reporting requirements was and is a challenge, but the reports were all filed and some new procedures have been put in place to meet the demands of the business office. The business manager is working toward receiving certification from the MSBO as a school CFO and expects to be completed in May of 2018. The District had also lost the Elementary Principal. The Elementary Principal was very involved with the Title I & II programs which received Federal Funds. The elementary Principal was replaced with a principal coming from a Middle School setting. The Elementary Setting has been a big change for the new Principal, but, he is adjusting well and learning every day.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

The District 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. As a result this program closing, the School started a Credit Recovery Program. While this program is in its infancy, it gives Beal kids an opportunity to continue their education at Beal.

The District proposed a bond issue to the Beal City community August 8th, 2017. The Community overwhelming supported the bond issue. The District is currently using large amounts of cash flow for large maintenance and repairs and capital improvements. This bond issue will allow the district to reduce the amount of cash flow It has been putting into these capital projects and give the District more flexibility in planning for future capital expenditures and build up the Districts fund balance. The bond issue will be sold over two different sale dates. The first series of bonds will be sold in November 2017 and the second (and largest) series will be sold in 2021 or 2022.

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.

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. One of those provisions is the "play or pay" rule which states that an employer must offer affordable health care to 95% of our full time staff who work an average of 30 hours per week. Effective January 1, 2016 for employers with 50 or more employees, the "Employer Mandate" penalty started. This penalty can be as high as \$3,390 per full-time employee receiving a premium subsidy on the exchange. 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 2017 have not yet been determined. As an overall district, we do anticipate a small increase in enrollment. In 2017/2018 teachers will be receiving a step increase and a .5% 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.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

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, 2017

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,538,134
Taxes receivable	901
Accounts receivable	23,109
Due from other governmental units	1,175,534
Inventory	1,674
Prepaid items	31,199
Capital assets not being depreciated	187,593
Capital assets - net of accumulated depreciation	<u>4,757,459</u>
 Total assets	 <u>7,715,603</u>
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	1,275,039
Deferred amount on debt refunding	<u>72,931</u>
 Total deferred outflows of resources	 <u>1,347,970</u>
 Total assets and deferred outflows of resources	 <u>9,063,573</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 9,560
Accrued expenditures	321,528
Accrued salaries payable	326,658
Unearned revenue	7,338
Noncurrent liabilities	
Net pension liability	8,977,721
Debt due within one year	521,893
Debt due in more than one year	<u>2,417,844</u>
Total liabilities	12,582,542
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	<u>315,676</u>
Total liabilities and deferred inflows of resources	<u>12,898,218</u>
Net Position	
Net investment in capital assets	2,303,786
Restricted for	
Debt service	170,596
Grants	107,465
Unrestricted (deficit)	<u>(6,416,492)</u>
Total net position	<u><u>\$ (3,834,645)</u></u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Activities
For the Year Ended June 30, 2017

	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	\$ 4,381,264	\$ 750	\$ 1,202,716	\$ -	\$ (3,177,798)
Supporting services	2,338,455	81,583	786	-	(2,256,086)
Food services	288,646	140,738	151,698	-	3,790
Community services	6,126	-	-	-	(6,126)
Interest on long-term debt	99,069	-	-	-	(99,069)
	<u>\$ 7,113,560</u>	<u>\$ 223,071</u>	<u>\$ 1,355,200</u>	<u>\$ -</u>	<u>(5,535,289)</u>
General revenues					
Property taxes, levied for general purposes					248,917
Property taxes, levied for debt service					614,699
State aid - unrestricted					4,938,989
Interest and investment earnings					4,868
Other					7,688
					<u>5,815,161</u>
Change in net position					279,872
Net position - beginning					<u>(4,114,517)</u>
Net position - ending					<u>\$ (3,834,645)</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 1,085,902	\$ 452,232	\$ 1,538,134
Taxes receivable	-	901	901
Accounts receivable	23,109	-	23,109
Due from other funds	2,763	-	2,763
Due from other governmental units	1,173,378	2,156	1,175,534
Inventory	-	1,674	1,674
Prepaid items	31,199	-	31,199
Total assets	<u>\$ 2,316,351</u>	<u>\$ 456,963</u>	<u>\$ 2,773,314</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 9,560	\$ -	\$ 9,560
Due to other funds	-	2,763	2,763
Accrued expenditures	315,104	-	315,104
Accrued salaries payable	326,658	-	326,658
Unearned revenue	2,757	4,581	7,338
Total liabilities	<u>654,079</u>	<u>7,344</u>	<u>661,423</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance			
Non-spendable			
Inventory	\$ -	\$ 1,674	\$ 1,674
Prepaid items	31,199	-	31,199
Restricted for			
Food service	-	90,403	90,403
Debt service	-	177,020	177,020
Grants	107,465	-	107,465
Assigned			
Future budget deficit	351,680	-	351,680
Capital projects	-	180,522	180,522
Unassigned	1,171,928	-	1,171,928
Total fund balance	<u>1,662,272</u>	<u>449,619</u>	<u>2,111,891</u>
Total liabilities and fund balance	<u>\$ 2,316,351</u>	<u>\$ 456,963</u>	<u>\$ 2,773,314</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, 2017

Total fund balances for governmental funds	\$ 2,111,891
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	187,593
Capital assets - net of accumulated depreciation	4,757,459
Deferred outflows (inflows) of resources	
Deferred outflows of resources from debt refunding	72,931
Deferred inflows of resources resulting from net pension liability	(315,676)
Deferred outflows of resources resulting from net pension liability	1,275,039
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(6,424)
Retirement incentive payable	(60,528)
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	(165,012)
Bonds payable	(2,667,502)
Other loans payable and liabilities	(46,695)
Net pension liability	<u>(8,977,721)</u>
Net position of governmental activities	<u><u>\$ (3,834,645)</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, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 459,894	\$ 757,703	\$ 1,217,597
State sources	5,658,393	24,530	5,682,923
Federal sources	75,510	137,996	213,506
Interdistrict sources	279,406	-	279,406
	<u>6,473,203</u>	<u>920,229</u>	<u>7,393,432</u>
Expenditures			
Current			
Education			
Instruction	4,089,967	-	4,089,967
Supporting services	2,108,150	-	2,108,150
Food services	-	285,211	285,211
Community services	6,126	-	6,126
Capital outlay	76,124	184,351	260,475
Debt service			
Principal	10,410	491,000	501,410
Interest and other expenditures	2,462	87,174	89,636
	<u>6,293,239</u>	<u>1,047,736</u>	<u>7,340,975</u>
Total expenditures	<u>6,293,239</u>	<u>1,047,736</u>	<u>7,340,975</u>
Excess (deficiency) of revenues over expenditures	<u>179,964</u>	<u>(127,507)</u>	<u>52,457</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, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Transfers in	\$ 14,900	\$ 150,000	\$ 164,900
Transfers out	(150,000)	(14,900)	(164,900)
Total other financing sources (uses)	(135,100)	135,100	-
Net change in fund balance	44,864	7,593	52,457
Fund balance - beginning	1,617,408	442,026	2,059,434
Fund balance - ending	<u>\$ 1,662,272</u>	<u>\$ 449,619</u>	<u>\$ 2,111,891</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, 2017

Net change in fund balances - Total governmental funds	\$	52,457
Total change in net position reported for governmental activities in the statement of activities is different because		
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.		
Depreciation expense		(331,988)
Capital outlay		166,505
Expenses are recorded when incurred in the statement of activities.		
Interest		840
Retirement incentive payable		(858)
Compensated absences		(670)
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.		
Net change in net pension liability		(348,586)
Net change in the deferral of resources related to the net pension liability		274,419
Net change between actual pension contributions and the cost of benefits earned net of employee contributions		(23,384)
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.		
Repayments of long-term debt		501,410
Amortization of premiums		2,150
Amortization of deferred amount on refunding		(12,423)
Change in net position of governmental activities	\$	279,872

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 131,004</u>
Liabilities	
Due to student groups	<u>\$ 131,004</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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, 2017

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. The School District has considered the impact of GASB Statement No. 77, *Tax Abatement Disclosures* and determined that there are no abatements that reduce property tax revenues.

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.

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.

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.

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.

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.

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, 2017, 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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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 acquisition 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	6-8 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.

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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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.

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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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

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.

Upcoming Accounting and Reporting Changes

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.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and

financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which 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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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

The School District did not have significant expenditure budget variances.

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$6,416,492 as of June 30, 2017. 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	\$ 1,538,134	\$ 131,004	\$ 1,669,138

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 1,669,138</u>
--	---------------------

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 \$1,700,619. Of the bank balance, \$1,450,619 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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	277,593	-	90,000	187,593
Capital assets being depreciated				
Buildings and additions	7,241,226	154,025	-	7,395,251
Site improvements	1,763,938	-	-	1,763,938
Equipment and furniture	539,338	34,780	63,284	510,834
Fiber optic network	390,222	-	-	390,222
Buses and other vehicles	768,025	67,700	51,731	783,994
Total capital assets being depreciated	10,702,749	256,505	115,015	10,844,239
Less accumulated depreciation for				
Buildings and additions	3,461,590	149,881	-	3,611,471
Site improvements	1,133,969	90,131	-	1,224,100
Equipment and furniture	313,800	26,921	63,284	277,437
Fiber optic network	360,953	19,511	-	380,464
Buses and other vehicles	599,495	45,544	51,731	593,308
Total accumulated depreciation	5,869,807	331,988	115,015	6,086,780
Net capital assets being depreciated	4,832,942	(75,483)	-	4,757,459
Net capital assets	\$ 5,110,535	\$ (75,483)	\$ 90,000	\$ 4,945,052

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

Governmental activities	
Instruction	\$ 218,561
Support services	112,918
Food services	509
Total governmental activities	\$ 331,988

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	\$ 2,763

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.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in			
General Fund	\$ -	\$ 14,900	\$ 14,900
Nonmajor Governmental Funds	150,000	-	150,000
	<u>\$ 150,000</u>	<u>\$ 14,900</u>	<u>\$ 164,900</u>

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	\$ 4,581
Technology grant	<u>2,757</u>
Total	<u>\$ 7,338</u>

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,	
2018	\$ 12,787
2019	12,787
2020	12,787
2021	<u>12,787</u>
Total minimum lease payments	51,148
Less amount representing interest	<u>(4,453)</u>
Present value of minimum lease payments	<u>\$ 46,695</u>

The assets acquired through capital leases are as follows:

Equipment and furniture	\$ 48,289
Less accumulated depreciation	<u>(10,463)</u>
Total	<u>\$ 37,826</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.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

Long-term obligation activity is summarized as follows:

				Amount Due	
	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
General obligation bonds	\$ 3,137,000	\$ -	\$ 491,000	\$ 2,646,000	\$ 511,000
Capital lease	57,105	-	10,410	46,695	10,893
Compensated absences	164,342	13,660	12,990	165,012	-
Retirement incentives	59,670	858	-	60,528	-
Premium on bonds	23,652	-	2,150	21,502	-
Total	\$ 3,441,769	\$ 14,518	\$ 516,550	\$ 2,939,737	\$ 521,893

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%.	\$ 766,000
\$1,009,000 serial bond due in annual installments of \$129,000 to \$240,000 through May 1, 2021, interest at 2.95% to 3.95%.	720,000
\$2,110,000 serial bond due in annual installments of \$240,000 to \$380,000 through May 1, 2021, interest at 1.75% to 2.60%.	<u>1,160,000</u>
Total general obligation bonded debt	<u>\$ 2,646,000</u>

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

Year Ending June 30,	Principal	Interest	Total
	2018	\$ 511,000	\$ 77,091
2019	535,000	64,987	599,987
2020	561,000	50,695	611,695
2021	589,000	33,261	622,261
2022	79,000	15,525	94,525
2023-2027	<u>371,000</u>	<u>37,882</u>	<u>408,882</u>
Total	<u>\$ 2,646,000</u>	<u>\$ 279,441</u>	<u>\$ 2,925,441</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$177,020 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 \$76,463 of termination pay, \$74,936 in accrued sick time benefits, and \$13,613 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 \$60,528 at year end.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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, 2017 is \$22,677.

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, 2017 is \$28,263.

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, 2017 is \$21,991.

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

	Beginning Balance	Additions	Reductions	Ending Balance
2012 Refunding Bonds	\$ 25,016	\$ -	\$ 2,339	\$ 22,677
2012 Refunding Bonds, Series B	32,660	-	4,397	28,263
2014 Refunding Bonds	27,678	-	5,687	21,991
Total	\$ 85,354	\$ -	\$ 12,423	\$ 72,931

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

Plan Description

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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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.

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, 2016 valuation will be amortized over a 20 year period for the plan's 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.95%
Member Investment Plan	3.0 - 7.0	18.95%
Pension Plus	3.0 - 6.4	17.73%
Defined Contribution	0.0	14.56%

Required contributions to the pension plan from the School District were \$808,040 for the year ending September 30, 2016.

Net Pension Liability

At June 30, 2017, the School District reported a liability of \$8,977,721 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. 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, 2016, the School District's proportionate share percent was 0.03598403 percent, which was an increase of 0.0007 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, 2017, the School District recognized total pension expense of \$883,722. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$552,900, \$570,400, and \$727,200, respectively.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

At June 30, 2017, 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	Total to Amortize
Difference between expected and actual experience	\$ 111,886	\$ (21,277)	\$ 90,609
Changes in assumptions	140,360	-	140,360
Net difference between projected and actual earnings on pension plan investments	149,210	-	149,210
Changes in proportion and differences between employer contributions and proportionate share of contributions	122,090	(16,403)	105,687
Employer contributions subsequent to the measurement date	751,493	(277,996)	-
	<u>\$ 1,275,039</u>	<u>\$ (315,676)</u>	<u>\$ 485,866</u>

\$751,493 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, 2018. \$277,996 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2018 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
2017	\$ 98,732
2018	86,998
2019	245,228
2020	54,908
	<u>\$ 485,866</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2015
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

- 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: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-79, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used and for women, 96% of the table rates were used).

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. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, 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: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

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, 2016, 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.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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 Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 11,561,045	\$ 8,977,721	\$ 6,799,731

*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 MPSERS CAFR. See the 2016 MPSERS CAFR (www.michigan.gov/mpsers-cafr).

Payables to the Pension Plan

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

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 (MPSERS).

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, 2016 through September 30, 2016, and October 1, 2016 through June 30, 2017, the employer contribution rate ranged from 6.40% to 6.83% and 5.69% to 5.91%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$179,000, \$187,800, and \$102,300, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2017, the School District had contributions in the amount of \$381,443 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.70% for the year ending June 30, 2017.

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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2017

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.

Note 12 - Subsequent Event

Subsequent to year end, a proposal passed to allow the School District to issue general obligation unlimited tax bonds in the amount not to exceed \$5,375,000 for the purpose of classroom additions to the school building, along with other equipment purchases and site improvements.

REQUIRED SUPPLEMENTARY INFORMATION

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 356,982	\$ 459,439	\$ 459,894	\$ 455
State sources	5,573,370	5,659,224	5,658,393	(831)
Federal sources	70,625	75,510	75,510	-
Interdistrict sources	272,573	279,406	279,406	-
	<u>6,273,550</u>	<u>6,473,579</u>	<u>6,473,203</u>	<u>(376)</u>
Expenditures				
Instruction				
Basic programs	3,217,268	3,294,485	3,254,606	(39,879)
Added needs	871,201	824,054	816,405	(7,649)
Adult and continuing education	121,650	18,959	18,956	(3)
Supporting services				
Pupil	101,754	102,472	102,537	65
Instructional staff	158,971	128,830	126,410	(2,420)
General administration	204,415	208,937	207,264	(1,673)
School administration	379,724	366,549	362,509	(4,040)
Business	127,864	134,665	134,075	(590)
Operations and maintenance	491,564	438,862	434,674	(4,188)
Pupil transportation services	457,068	369,227	364,447	(4,780)
Central	145,330	128,591	128,886	295
Athletics	277,982	249,411	247,348	(2,063)
Community services	3,718	6,577	6,126	(451)
Capital outlay	34,309	81,909	76,124	(5,785)
Debt service				
Principal	27,540	10,738	10,410	(328)
Interest and fiscal charges	-	2,049	2,462	413
	<u>6,620,358</u>	<u>6,366,315</u>	<u>6,293,239</u>	<u>(73,076)</u>

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$ (346,808)	\$ 107,264	\$ 179,964	\$ 72,700
Other Financing Sources (Uses)				
Transfers in	19,500	19,500	14,900	(4,600)
Transfers out	(150,000)	(150,000)	(150,000)	-
Total other financing sources (uses)	(130,500)	(130,500)	(135,100)	(4,600)
Net change in fund balance	(477,308)	(23,236)	44,864	68,100
Fund balance - beginning	1,617,408	1,617,408	1,617,408	-
Fund balance - ending	<u>\$ 1,140,100</u>	<u>\$ 1,594,172</u>	<u>\$ 1,662,272</u>	<u>\$ 68,100</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,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Reporting unit's proportion of net pension liability (%)	0.04%	0.04%	0.04%							
B. Reporting unit's proportionate share of net pension liability	\$ 8,977,721	\$ 8,629,135	\$ 7,800,937							
C. Reporting unit's covered-employee payroll	\$ 3,078,471	\$ 2,946,941	\$ 3,026,438							
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	291.63%	292.82%	257.76%							
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	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,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Statutorily required contributions	\$ 552,877	\$ 570,419	\$ 727,215							
B. Contributions in relation to statutorily required contributions	<u>552,877</u>	<u>570,419</u>	<u>727,215</u>							
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
D. Reporting unit's covered- employee payroll	2,943,844	2,962,315	2,956,960							
E. Contributions as a percentage of covered-employee payroll	18.78%	19.26%	24.59%							

Notes:

Benefit changes - There were no changes of benefit terms in 2017.

Changes in assumptions - There were no changes of benefit assumptions in 2017.

OTHER SUPPLEMENTARY INFORMATION

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Food Services	Public Improvement	2012	2014	2012 SBLF Refunding	
Assets						
Cash	\$ 95,591	\$ 180,522	\$ 53,647	\$ 70,376	\$ 52,096	\$ 452,232
Taxes receivable	-	-	171	514	216	901
Due from other governmental units	2,156	-	-	-	-	2,156
Inventory	1,674	-	-	-	-	1,674
Total assets	\$ 99,421	\$ 180,522	\$ 53,818	\$ 70,890	\$ 52,312	\$ 456,963
Liabilities and Fund Balance						
Liabilities						
Due to other funds	\$ 2,763	\$ -	\$ -	\$ -	\$ -	\$ 2,763
Unearned revenue	4,581	-	-	-	-	4,581
Total liabilities	7,344	-	-	-	-	7,344
Fund Balance						
Non-spendable						
Inventory	1,674	-	-	-	-	1,674
Restricted for						
Food service	90,403	-	-	-	-	90,403
Debt service	-	-	53,818	70,890	52,312	177,020
Assigned						
Capital projects	-	180,522	-	-	-	180,522
Total fund balance	92,077	180,522	53,818	70,890	52,312	449,619
Total liabilities and fund balance	\$ 99,421	\$ 180,522	\$ 53,818	\$ 70,890	\$ 52,312	\$ 456,963

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, 2017

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Food Services	Public Improvement	2012	2014	2012 SBLF Refunding	
Revenues						
Local sources	\$ 140,924	\$ 100	\$ 117,200	\$ 351,445	\$ 148,034	\$ 757,703
State sources	23,568	-	183	548	231	24,530
Federal sources	137,996	-	-	-	-	137,996
Total revenues	302,488	100	117,383	351,993	148,265	920,229
Expenditures						
Current						
Education						
Food services	285,211	-	-	-	-	285,211
Capital outlay	17,846	166,505	-	-	-	184,351
Debt service						
Principal	-	-	79,000	300,000	112,000	491,000
Interest and other expenditures	-	-	29,153	30,121	27,900	87,174
Total expenditures	303,057	166,505	108,153	330,121	139,900	1,047,736
Excess (deficiency) of revenues over expenditures	(569)	(166,405)	9,230	21,872	8,365	(127,507)
Other Financing Sources (Uses)						
Transfers in	-	150,000	-	-	-	150,000
Transfers out	(14,900)	-	-	-	-	(14,900)
Total other financing sources (uses)	(14,900)	150,000	-	-	-	135,100
Net change in fund balance	(15,469)	(16,405)	9,230	21,872	8,365	7,593
Fund balance - beginning	107,546	196,927	44,588	49,018	43,947	442,026
Fund balance - ending	\$ 92,077	\$ 180,522	\$ 53,818	\$ 70,890	\$ 52,312	\$ 449,619

Beal City Public Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2017

	2017	2016
Assets		
Cash	\$ 1,085,902	\$ 1,379,431
Accounts receivable	23,109	501
Due from other funds	2,763	-
Due from other governmental units	1,173,378	1,008,956
Prepaid items	31,199	31,023
Total assets	\$ 2,316,351	\$ 2,419,911
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 9,560	\$ 15,293
Due to other funds	-	157,079
Accrued expenditures	315,104	307,254
Accrued salaries payable	326,658	322,877
Unearned revenue	2,757	-
Total liabilities	654,079	802,503
Fund Balance		
Non-spendable		
Prepaid items	31,199	31,023
Restricted for		
Grants	107,465	129,971
Assigned		
Future budget deficit	351,680	477,308
Unassigned	1,171,928	979,106
Total fund balance	1,662,272	1,617,408
Total liabilities and fund balance	\$ 2,316,351	\$ 2,419,911

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 258,002	\$ 248,917	\$ 248,917	\$ -
Tuition	-	750	750	-
Transportation fees	2,400	2,926	3,010	84
Earnings on investments	2,080	2,228	2,602	374
Student activities	60,000	73,668	73,668	-
Other local revenues	34,500	130,950	130,947	(3)
Total revenues from local sources	<u>356,982</u>	<u>459,439</u>	<u>459,894</u>	<u>455</u>
Revenues from state sources				
Grants - unrestricted	4,905,885	4,937,824	4,938,027	203
Grants - restricted	667,485	721,400	720,366	(1,034)
Total revenues from state sources	<u>5,573,370</u>	<u>5,659,224</u>	<u>5,658,393</u>	<u>(831)</u>
Revenues from federal sources				
Grants	70,625	75,510	75,510	-
Interdistrict sources				
ISD collected millage	272,573	279,406	279,406	-
Other financing sources				
Transfers in	19,500	19,500	14,900	(4,600)
Total revenue and other financing sources	<u>\$ 6,293,050</u>	<u>\$ 6,493,079</u>	<u>\$ 6,488,103</u>	<u>\$ (4,976)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 921,558	\$ 923,375	\$ 924,101	\$ 726
Employee benefits	682,994	679,244	685,545	6,301
Purchased services	39,941	47,391	44,812	(2,579)
Supplies and materials	61,269	67,191	57,987	(9,204)
Total elementary	<u>1,705,762</u>	<u>1,717,201</u>	<u>1,712,445</u>	<u>(4,756)</u>
Basic program - high school				
Salaries	793,766	820,177	822,120	1,943
Employee benefits	548,856	567,232	573,192	5,960
Purchased services	107,324	102,826	97,619	(5,207)
Supplies and materials	51,810	80,584	42,775	(37,809)
Other	9,750	6,465	6,455	(10)
Total high school	<u>1,511,506</u>	<u>1,577,284</u>	<u>1,542,161</u>	<u>(35,123)</u>
Added needs - special education				
Salaries	234,291	219,580	219,574	(6)
Employee benefits	161,564	155,470	156,341	871
Purchased services	65,513	43,260	43,256	(4)
Supplies and materials	1,100	925	717	(208)
Total special education	<u>462,468</u>	<u>419,235</u>	<u>419,888</u>	<u>653</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	\$ 87,761	\$ 73,507	\$ 73,482	\$ (25)
Employee benefits	60,701	54,582	54,785	203
Purchased services	4,050	19,835	19,823	(12)
Supplies and materials	2,900	920	419	(501)
Total compensatory education	<u>155,412</u>	<u>148,844</u>	<u>148,509</u>	<u>(335)</u>
Added needs - career and technical education				
Salaries	34,323	33,665	33,741	76
Employee benefits	18,205	18,522	18,652	130
Purchased services	293	252	251	(1)
Supplies and materials	500	8,250	78	(8,172)
Other	200,000	195,286	195,286	-
Total career and technical education	<u>253,321</u>	<u>255,975</u>	<u>248,008</u>	<u>(7,967)</u>
Adult and continuing education - basic				
Salaries	70,799	8,684	8,684	-
Employee benefits	42,806	5,475	5,472	(3)
Purchased services	1,255	-	-	-
Supplies and materials	6,790	4,800	4,800	-
Total basic	<u>121,650</u>	<u>18,959</u>	<u>18,956</u>	<u>(3)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	\$ 55,343	\$ 54,875	\$ 54,713	\$ (162)
Employee benefits	44,434	45,888	46,117	229
Supplies and materials	150	-	-	-
Total guidance services	<u>99,927</u>	<u>100,763</u>	<u>100,830</u>	<u>67</u>
Pupil - speech services				
Purchased services	-	139	139	-
Pupil - other support services				
Salaries	1,275	1,080	1,080	-
Employee benefits	552	490	488	(2)
Total other pupil support services	<u>1,827</u>	<u>1,570</u>	<u>1,568</u>	<u>(2)</u>
Instructional staff - improvement of education				
Salaries	6,000	2,360	1,960	(400)
Employee benefits	2,589	1,080	896	(184)
Purchased services	24,550	12,422	12,399	(23)
Supplies and materials	350	10	10	-
Total improvement of education	<u>33,489</u>	<u>15,872</u>	<u>15,265</u>	<u>(607)</u>
Instructional staff - educational media services				
Purchased services	18,892	18,385	17,870	(515)
Supplies and materials	979	829	143	(686)
Total educational media services	<u>19,871</u>	<u>19,214</u>	<u>18,013</u>	<u>(1,201)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - technology assisted instruction				
Salaries	\$ 39,752	\$ 39,752	\$ 39,752	\$ -
Employee benefits	36,178	33,553	33,551	(2)
Purchased services	16,581	12,214	11,706	(508)
Other	100	100	-	(100)
Total technology assisted instruction	92,611	85,619	85,009	(610)
Instructional staff - academic student assessment				
Purchased services	12,000	7,475	7,475	-
Supplies and materials	1,000	650	648	(2)
Total academic student assessment	13,000	8,125	8,123	(2)
General administration - board of education				
Purchased services	17,690	22,190	21,042	(1,148)
Supplies and materials	-	1,400	1,400	-
Other	14,066	11,550	11,460	(90)
Total board of education	31,756	35,140	33,902	(1,238)
General administration - executive administration				
Salaries	104,748	104,786	104,786	-
Employee benefits	64,311	65,361	65,360	(1)
Purchased services	600	650	512	(138)
Supplies and materials	3,000	3,000	2,704	(296)
Total executive administration	172,659	173,797	173,362	(435)

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	\$ 204,589	\$ 204,346	\$ 203,898	\$ (448)
Employee benefits	161,650	153,116	150,900	(2,216)
Purchased services	2,100	2,880	2,695	(185)
Supplies and materials	7,475	3,680	2,680	(1,000)
Other	1,610	1,327	1,327	-
Total office of the principal	<u>377,424</u>	<u>365,349</u>	<u>361,500</u>	<u>(3,849)</u>
School administration - other				
Supplies and materials	<u>2,300</u>	<u>1,200</u>	<u>1,009</u>	<u>(191)</u>
Business - fiscal services				
Salaries	57,012	56,750	56,686	(64)
Employee benefits	47,952	48,214	48,204	(10)
Purchased services	9,500	8,410	8,197	(213)
Supplies and materials	22	50	50	-
Other	850	440	437	(3)
Total fiscal services	<u>115,336</u>	<u>113,864</u>	<u>113,574</u>	<u>(290)</u>
Business - internal services				
Purchased services	<u>6,000</u>	<u>15,394</u>	<u>15,394</u>	<u>-</u>
Business - other				
Purchased services	5,282	4,544	4,544	-
Other	1,246	863	563	(300)
Total other business	<u>6,528</u>	<u>5,407</u>	<u>5,107</u>	<u>(300)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Operations and maintenance - operating building services				
Salaries	\$ 141,616	\$ 127,695	\$ 127,486	\$ (209)
Employee benefits	103,393	87,431	87,448	17
Purchased services	157,280	148,667	146,049	(2,618)
Supplies and materials	87,575	73,216	71,838	(1,378)
Other	1,700	1,853	1,853	-
Total operating building services	<u>491,564</u>	<u>438,862</u>	<u>434,674</u>	<u>(4,188)</u>
Pupil transportation services				
Salaries	124,252	115,988	115,454	(534)
Employee benefits	176,146	155,987	155,708	(279)
Purchased services	108,620	64,750	62,668	(2,082)
Supplies and materials	47,800	32,202	30,317	(1,885)
Other	250	300	300	-
Total transportation services	<u>457,068</u>	<u>369,227</u>	<u>364,447</u>	<u>(4,780)</u>
Central - communication services				
Purchased services	<u>20,000</u>	<u>18,000</u>	<u>18,184</u>	<u>184</u>
Central - staff/personnel services				
Salaries	29,000	29,000	29,000	-
Employee benefits	22,328	22,376	22,375	(1)
Purchased services	14,200	12,363	12,475	112
Other	1,500	706	706	-
Total staff/personnel services	<u>67,028</u>	<u>64,445</u>	<u>64,556</u>	<u>111</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - support services technology				
Salaries	\$ 9,898	\$ 9,938	\$ 9,938	\$ -
Employee benefits	22,804	8,387	8,387	-
Purchased services	24,600	27,599	27,599	-
Supplies and materials	500	180	180	-
Other	500	42	42	-
Total support services technology	<u>58,302</u>	<u>46,146</u>	<u>46,146</u>	<u>-</u>
Athletic activities				
Salaries	96,701	81,503	81,136	(367)
Employee benefits	47,695	44,786	43,571	(1,215)
Purchased services	105,891	94,864	94,175	(689)
Supplies and materials	13,750	10,057	10,265	208
Other	13,945	18,201	18,201	-
Total athletic activities	<u>277,982</u>	<u>249,411</u>	<u>247,348</u>	<u>(2,063)</u>
Community services - non-public school pupils				
Salaries	2,096	3,508	3,508	-
Employee benefits	1,158	2,646	2,195	(451)
Purchased services	464	423	423	-
Total non-public school pupils	<u>3,718</u>	<u>6,577</u>	<u>6,126</u>	<u>(451)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Capital outlay				
Basic program - elementary	\$ 3,000	\$ 1,500	\$ 1,080	\$ (420)
Basic program - high school	500	1,815	1,815	-
Added needs - special education	500	500	255	(245)
Added needs - compensatory education	100	-	-	-
Added needs - career and technical education	50	-	-	-
Instructional staff - technology assisted instruction	5,000	39,278	34,807	(4,471)
General administration - executive administration	200	-	-	-
School administration - office of the principal	250	-	-	-
Operations and maintenance - operating building services	5,529	3,344	2,815	(529)
Central - support services technology	10,000	3,945	3,945	-
Athletics	9,180	31,331	31,407	76
Other support services	-	196	-	(196)
Total capital outlay	<u>34,309</u>	<u>81,909</u>	<u>76,124</u>	<u>(5,785)</u>
Debt service				
Principal	27,540	10,738	10,410	(328)
Interest and other expenditures	-	2,049	2,462	413
Total debt service	<u>27,540</u>	<u>12,787</u>	<u>12,872</u>	<u>85</u>
Other financing uses				
Transfers out	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Total expenditures and financing uses	<u>\$ 6,770,358</u>	<u>\$ 6,516,315</u>	<u>\$ 6,443,239</u>	<u>\$ (73,076)</u>

Beal City Public Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2017

Year Ending June 30,	2014	2012 Series A	2012 Series B	Total
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>\$ 1,160,000</u>	<u>\$ 766,000</u>	<u>\$ 720,000</u>	<u>\$ 2,646,000</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	1.75% - 2.60%	3.45%	2.95% - 3.95%	
Original issue	<u>\$ 2,110,000</u>	<u>\$ 1,157,000</u>	<u>\$ 1,009,000</u>	



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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
Mt. Pleasant, Michigan

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, 2017, 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 September 1, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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
September 1, 2017

Beal City Public Schools
Schedule of Findings and Responses
June 30, 2017

GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings for Governmental Auditing Standards for the year ended June 30, 2017.

PRIOR YEAR FINDINGS

There were findings for Governmental Auditing Standards for the year ended June 30, 2016.

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.

Current Year Status: Fully corrected.