

**Mason County Central School District**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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# **MASON COUNTY CENTRAL SCHOOLS**

## **Management's Discussion and Analysis for Fiscal Year Ended June 30, 2017**

Mason County Central Schools (the "School District") is a K-12 school district located in Mason, Lake and Oceana Counties, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mason County Central Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2017. Please read in conjunction with the School District's financial statements following this section.

Generally accepted accounting principles ("GAAP"), according to GASB 34, requires the reporting of two types of financial statements: District-Wide Financial Statements (full accrual) and Fund Financial Statements (modified accrual).

### **Fund Financial Statements**

The fund financial statements are reported on a modified accrual basis, which means that only assets that are measurable and currently available are reported, as well as liabilities that can expect to be paid with current financial resources. They provide detailed information about the most significant funds.

The fund statements comply with the legal requirements of the Michigan Department of Education's School Accounting Manual. The General Fund reports activities for the School District's major instructional and instructional support activities. Additional governmental funds are Capital Projects, Debt and School Service, which reports food service activities.

The fund financial statements report capital assets as expenditures during the current period rather than as an asset on the balance sheet. When debt is issued, the proceeds are reported as a resource rather than as a liability on the balance sheet. The current year principal payments are reported as expenditures rather than reductions in liabilities.

### **District-Wide Financial Statements**

The District-wide statements are reported on a full accrual basis of accounting and help to measure the financial health of the School District as a whole. This means that all of the School District's assets and liabilities, both short and long-term are reported using accounting methods similar to those of private sector companies. All revenues and expenditures are reported regardless of when cash is received or paid. Capital assets and long-term obligations are reported in the statement of net position. A reconciliation is provided to identify the differences between governmental activities (reported in the statement of net position and the statement of activities) and the fund financial statements.

**Management's Discussion and Analysis for Fiscal Year Ended June 30, 2017 - Continued**

The composition of the financial report is as follows:

*Management's Discussion and Analysis (MD & A)  
(Required Supplemental Information)*

**Basic Financial Statements**

District-Wide Financial Statements      Fund Financial Statements

*Notes to the Basic Financial Statements*

*Budgetary Information for the General Fund  
(Required Supplemental Information)*

*Combining Financial Statements of Non-Major Funds  
Other Supplemental Information*

**Fiduciary Fund**

The School District holds fiduciary responsibility for the student activity funds held in its care. These fiduciary activities are reported on a separate statement of net position. The School District cannot use these assets to finance its operations, but is responsible for ensuring that the assets held in these funds are used for their intended purpose.

**Summary of Net Position** (provides a perspective of the School District as a whole)

	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
<b>Assets</b>			
Current assets	<u>\$ 4,651,067</u>	<u>\$ 5,851,378</u>	25.8%
Noncurrent assets	<u>2,775,864</u>	<u>3,088,653</u>	11.3%
Capital assets	28,803,260	31,403,310	9.0%
Less: Accumulated depreciation	<u>(13,822,856)</u>	<u>(14,531,958)</u>	5.1%
Capital assets, net book value	<u>14,980,404</u>	<u>16,871,352</u>	12.6%
<b>Deferred Outflows of Resources</b>	<u>1,687,104</u>	<u>1,871,754</u>	10.9%
Total assets and deferred outflows	<u>\$ 24,094,439</u>	<u>\$ 27,683,137</u>	14.9%
<b>Liabilities</b>			
Current liabilities	\$ 4,663,976	\$ 4,504,856	(3.4)%
Long-term liabilities	<u>28,330,541</u>	<u>30,446,870</u>	7.5%
Total liabilities	<u>\$ 32,994,517</u>	<u>\$ 34,951,726</u>	5.9%

**Management’s Discussion and Analysis for Fiscal Year Ended June 30, 2017 – Continued**

**Summary of Net Position – continued**

	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
<b>Deferred Inflows of Resources</b>	\$ 501,453	\$ 1,023,459	104.1%
<b>Net position</b>			
Invested in capital assets, net of related debt	\$ 1,703,644	\$ 974,896	(42.8)%
Restricted	3,076,420	3,411,298	10.9%
Unrestricted	<u>(14,181,595)</u>	<u>(12,678,242)</u>	(9.7)%
Total net position	<u>\$ (9,401,531)</u>	<u>\$ (8,292,048)</u>	(11.8)%
Total net position, deferred inflows and net position	<u>\$ 24,094,439</u>	<u>\$ 27,683,137</u>	14.9%

The analysis above focuses on the net position of the School District while the change in net position is discussed below. The School District’s improved financial position is the result of many factors. The School District’s net position was \$(9,401,531) at June 30, 2016 and \$(8,292,048) at June 30, 2017. Current assets increased by \$1,200,311 in 2017 reflecting an increase in cash and cash equivalents. Non-current assets increased \$312,789 reflecting the growing set-aside account for the QZAB payment. Net positions, invested in capital assets, net of related debt decreased by \$728,748. This figure reports the original cost, less depreciation of capital assets minus long-term debt used to finance these acquisitions. The decrease is due to debt principal payments reducing the outstanding debt plus acquisitions of additional capital assets. Most of the debt will be repaid from voter-approved property taxes assessed as debt payments come due. Restricted assets are reported separately to indicate legislative requirements and debt covenants. These assets may not be used by the School District in its day-to-day operations. \$(14,181,595) and \$(12,678,242) of net position is unrestricted in 2016 and 2017, respectively. This figure represents the accumulated results of all past years’ operations. Year-to-year variances in these assets are significantly affected by General Fund operations and the portion of the state pension obligation the district must reflect in the statement of net position. The net pension liability of the School District was \$15,285,082 and \$14,741,074 at June 30, 2016 and 2017, respectively.

**Management’s Discussion and Analysis for Fiscal Year Ended June 30, 2017 – Continued**

**Statement of Activities** (provides the results of operations of the School District as a whole)

	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
<b>Revenues</b>			
General revenues			
Property taxes	\$ 3,267,610	\$ 3,196,075	(2.2)%
State unrestricted foundation	7,358,909	7,429,635	1.0%
Other	129,615	112,869	(12.9)%
Charges for services	403,998	423,691	4.9%
Operating grants/contributions	<u>3,524,573</u>	<u>3,768,832</u>	6.9%
Total revenues	<u>14,684,705</u>	<u>14,931,102</u>	1.7%
<b>Expenditures</b>			
Instruction	7,363,342	7,368,043	.1%
Support services	4,645,443	4,549,188	(5.8)%
Food service	629,241	719,817	14.4%
Other	-	179,183	100.0%
Interest on long-term debt	333,077	296,286	10.6%
Depreciation	<u>741,458</u>	<u>709,102</u>	(4.4)%
Total expenditures	<u>13,712,561</u>	<u>13,821,619</u>	0.8%
<b>Change in net position</b>	<u>972,144</u>	<u>1,109,483</u>	14.1%
Net position – beginning of year	<u>(10,373,675)</u>	<u>(9,401,531)</u>	(9.4)%
Net position – end of year	<u>\$ (9,401,531)</u>	<u>\$ (8,292,048)</u>	(11.8)%

The School District’s total revenues increased by 1.7%. State revenues increased slightly due to increased foundation amount offset by a small decrease in student count, but operating grants increased due to larger allocations of some Federal and State grants. In 2017, some activities were partially funded by those who benefited from the programs in the amount of \$423,691 or by governmental subsidies of \$3,768,832. The difference between these two figures and the total of the School District’s expenditures of \$13,821,619 is \$9,629,096. This clearly points out the significant reliance placed on State unrestricted resources of \$7,429,635 and local taxpayers’ dollars of \$3,196,075 to fund the School District’s activities. Consequently, the Board of Education and Administration must annually evaluate the needs of the School District to balance with available unrestricted funding.

The School District experienced an increase of \$1,109,483 in net position. This was primarily due to an increase in deferred inflows of resources for pension obligation. The difference between the change in net position and the change in fund balance is provided as a reconciliation to the financial statements.

## Management's Discussion and Analysis for Fiscal Year Ended June 30, 2017 - Continued

### The School District's Funds

As of June 30, 2017, the combined governmental funds reported a fund balance of \$5,422,284 or an increase of \$1,522,137 over last year.

- General Fund reported an increase of \$229,922 to \$984,482.
- Debt Funds showed an increase of \$384,547 to \$3,376,926, reflecting the additional deposit to the QZAB account. Millage rates are reviewed annually to ensure the School District assesses enough taxes to pay the annual bond-related debt costs. These taxes can only be used to pay debt service obligations.
- The capital projects fund was established with an ending fund balance of \$963,329.
- The special revenue fund balance decreased by \$55,661 to \$97,547.

### General Fund Budget Highlights

Throughout the school year, the School District monitors and revises its budget to account for continual changes in revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. Budget revisions are formally adopted in December and June. As part of the required supplemental information, a schedule showing original and final budget amounts compared to those actually received and paid is part of the financial statements. Variances were as follows:

- State sources increased by \$548,095 from the original budget, the majority of which is a reclassification of other intermediate transfers to state revenue per State directive, and the addition of increases to other state grants. The final budget for expenditures decreased \$186,116 from the original budget.
- Total actual revenues were over budget by \$169,380 and total actual expenditures were under by \$9,532, 1.4% and .1% respectively.

**Management’s Discussion and Analysis for Fiscal Year Ended June 30, 2017 - Continued**

**Capital Assets**

At June 30, 2017 the School District had \$31,403,310 invested in capital assets including land, buildings, furniture, vehicles and equipment summarized as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets	\$ 28,803,260	\$2,600,050	\$ -	\$ 31,403,310
Less: Accumulated depreciation	<u>(13,822,856)</u>	<u>(709,102)</u>	<u>-</u>	<u>(14,531,958)</u>
Net investment capital outlay	<u>\$ 14,980,404</u>	<u>\$1,890,948</u>	<u>\$ -</u>	<u>\$ 16,871,352</u>

**Debt**

A summary of bonded indebtedness follows:

Balance <u>June 30, 2016</u>	New Debt <u>                    </u>	Payments <u>                    </u>	Balance <u>June 30, 2017</u>
<u>\$ 12,501,764</u>	<u>\$ 3,580,000</u>	<u>\$ (875,000)</u>	<u>\$ 15,206,764</u>

The other obligations are employee-compensated absences and early retirement incentives that are presented in more detail in the notes to the financial statements along with unamortized bond premium.

**Currently Known Facts, Conditions and Decisions**

The State foundation revenue is calculated by multiplying the School District’s blended student count by the current year foundation allowance. The blended count for the 2017-18 school year is 90% of the September 2017 student count and 10% of the February 2017 student count. Since State foundation revenue accounts for 58% of the School District’s total General Fund revenue, student count is a critical component affecting the budget. The budget for the 2017-18 year adopted in June 2017 was based on an estimate of a reduction of 15 students to be counted in September.

The School District used a foundation amount of \$7,631 in calculating State revenues for the 2017-18 budget. Once the final student count is finalized, State law requires the School District to amend its budget if revenues plus fund balance are not sufficient to fund original appropriations.

The budget for 2017-18 basically maintains supply line items at the same level as 2016-17. The district will be adding an additional special education teacher to the teaching staff.

## **Management's Discussion and Analysis for Fiscal Year Ended June 30, 2017 - Continued**

During the 2016-17 school year the district began a \$3.6 million dollar project focusing on energy improvements, technology and outdoor infrastructure refurbishment. This project is scheduled for completion in October, 2017.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors with a general overview of the School District's finances and to reflect accountability for the money it receives. If you have questions about this report or need additional information, contact the Central Business Office, 300 W. Broadway, Scottville, MI 49454.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Mason County Central School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Mason County Central School District* (the "School District") 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Mason County Central School District as of June 30, 2017, and the respective changes in financial position, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii, and budgetary comparison information on page 33 and pension schedules on page 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

October 19, 2017

**Mason County Central School District**

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 3,637,628
Due from other governments	1,971,821
Other receivables	19,686
Prepaid expenses	173,356
Inventory	48,887
Total current assets	5,851,378
Non-current assets	
Restricted cash	809
Restricted investments	3,087,844
Capital assets, net of accumulated depreciation	16,871,352
Total non-current assets	19,960,005
Total assets	25,811,383
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on debt refunding	473,898
Deferred outflows of resources for pension obligation	1,397,856
Total deferred outflows of resources	1,871,754
Total assets and deferred outflows of resources	\$ 27,683,137
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 407,053
State aid note payable	2,050,000
Salaries payable and related liabilities	1,039,629
Unearned revenue	11,124
Other accrued expenses	73,116
Current portion of long-term obligations	923,934
Total current liabilities	4,504,856
Non-current portion of long-term obligations	15,705,796
Net pension obligation	14,741,074
Total liabilities	34,951,726
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflow of resources for pension obligation	1,023,459
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	974,896
Restricted	
Debt Service	3,313,751
Food Service	97,547
Unrestricted (deficit)	(12,678,242)
Total net position	(8,292,048)
Total liabilities, deferred inflows of resources and net position	\$ 27,683,137

The accompanying notes are an integral part of these statements.

# Mason County Central School District

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 7,368,043	\$ -	\$ 2,463,157	\$ (4,904,886)
Supporting Services	4,549,188	196,262	734,575	(3,618,351)
Food Service	719,817	227,429	475,858	(16,530)
Other	179,183	-	-	(179,183)
Interest on long-term debt	296,286	-	95,242	(201,044)
Depreciation - unallocated*	709,102	-	-	(709,102)
Total governmental activities	\$ 13,821,619	\$ 423,691	\$ 3,768,832	(9,629,096)
General purpose revenues				
Property taxes				
Levied for general purposes				1,843,819
Levied for Debt Service				1,352,256
State school aid - unrestricted				7,429,635
Investment and other				112,869
				10,738,579
Change in net position				1,109,483
Net position - beginning of year				(9,401,531)
Net position - end of year				\$ (8,292,048)

\* See Note G

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

**Mason County Central School District**  
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	2016 Capital Projects Fund	2006 QZAB Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,399,820	\$ 934,153	\$ 16,352	\$ 287,303	\$ 3,637,628
Due from other governments	1,931,282		-	40,539	1,971,821
Other receivables	16,476		-	3,210	19,686
Due from other funds	-	308,818	-	18,301	327,119
Inventories - supplies and materials	23,098		-	25,789	48,887
Prepaid expenditures	173,356		-	-	173,356
Restricted cash	-		809	-	809
Restricted investments	-		3,087,844	-	3,087,844
<b>Total assets</b>	<b>\$ 4,544,032</b>	<b>\$ 1,242,971</b>	<b>\$ 3,105,005</b>	<b>\$ 375,142</b>	<b>\$ 9,267,150</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued expenditures	\$ 132,479	\$ 279,642	\$ -	\$ 4,874	\$ 416,995
Salaries and benefits payable	1,038,828		-	800	1,039,628
Unearned revenue	11,124		-	-	11,124
Due to other funds	327,119		-	-	327,119
State aid anticipation note payable	2,050,000		-	-	2,050,000
<b>Total liabilities</b>	<b>3,559,550</b>	<b>279,642</b>	<b>-</b>	<b>5,674</b>	<b>3,844,866</b>
<b>FUND BALANCES</b>					
Nonspendable for inventories	23,098		-	25,789	48,887
Nonspendable for prepaid expenditures	173,356		-	-	173,356
Restricted for Food Service	-		-	71,758	71,758
Restricted for Debt Service	-		3,105,005	271,921	3,376,926
Restricted for Capital Improvements	-	963,329	-	-	963,329
Committed for future unemployment	25,000		-	-	25,000
Assigned for transportation capital expenditures	40,000	-	-	-	40,000
Unassigned	723,028		-	-	723,028
<b>Total fund balances</b>	<b>984,482</b>	<b>963,329</b>	<b>3,105,005</b>	<b>369,468</b>	<b>5,422,284</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,544,032</b>	<b>\$ 1,242,971</b>	<b>\$ 3,105,005</b>	<b>\$ 375,142</b>	

**Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$31,403,310 and the accumulated depreciation is \$14,531,958		16,871,352
Deferred outflows of resources are not financial resources and, therefore, are not reported as assets in governmental funds. Deferred outflows of resources at year-end consist of:		
Deferred loss on refunding	\$ 473,898	
Pension obligation	1,397,856	1,871,754
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	15,206,764	
Accrued interest on the bonds	63,175	
Unamortized bond premium	1,163,590	
Accumulated leave liability	259,376	
Net pension obligation	14,741,074	(31,433,979)
Deferred inflows of resources for pension obligation is not a financial resource and, therefore, is not reported as a liability in governmental funds.		(1,023,459)
<b>Total net position - governmental activities</b>		<b>\$ (8,292,048)</b>

## Mason County Central School District

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

Year Ended June 30, 2017

	General Fund	2016 Capital Projects Fund	2006 QZAB Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 1,843,819	\$ -	\$ 240,837	\$ 1,111,419	\$ 3,196,075
State revenues	9,284,342	-	16,962	99,429	9,400,733
Federal revenues	751,885	-	-	454,708	1,206,593
Interest	4,360	3,307	69,981	1,549	79,197
Other	821,075	-	-	227,429	1,048,504
<b>Total revenues</b>	<b>12,705,481</b>	<b>3,307</b>	<b>327,780</b>	<b>1,894,534</b>	<b>14,931,102</b>
<b>Expenditures</b>					
Instruction	7,587,595	-	-	-	7,587,595
Supporting Services	4,578,320	33,450	-	-	4,611,770
Food Service	-	-	-	719,817	719,817
Debt Service					
Principal	-	-	-	875,000	875,000
Interest	-	-	-	415,550	415,550
Other	107,000	70,926	750	507	179,183
Capital outlay	44,271	2,515,602	-	40,177	2,600,050
<b>Total expenditures</b>	<b>12,317,186</b>	<b>2,619,978</b>	<b>750</b>	<b>2,051,051</b>	<b>16,988,965</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>388,295</b>	<b>(2,616,671)</b>	<b>327,030</b>	<b>(156,517)</b>	<b>(2,057,863)</b>
<b>Other financing sources (uses)</b>					
Proceeds from bond issue	-	3,580,000	-	-	3,580,000
Operating transfers in	-	-	-	158,373	158,373
Operating transfers out	(158,373)	-	-	-	(158,373)
<b>Total other financing sources (uses)</b>	<b>(158,373)</b>	<b>3,580,000</b>	<b>-</b>	<b>158,373</b>	<b>3,580,000</b>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>229,922</b>	<b>963,329</b>	<b>327,030</b>	<b>1,856</b>	<b>1,522,137</b>
Fund balances, beginning of year	754,560	-	2,777,975	367,612	3,900,147
Fund balances, end of year	<b>\$ 984,482</b>	<b>\$ 963,329</b>	<b>\$ 3,105,005</b>	<b>\$ 369,468</b>	<b>\$ 5,422,284</b>

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

## Mason County Central School District

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

<b>Total net change in fund balances - governmental funds</b>	<b>\$ 1,522,137</b>						
Amounts reported for governmental activities in the statement of activities are different because:							
<p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation in the period.</p>							
<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding-right: 10px;">Capital outlays</td> <td style="text-align: right;">\$ 2,600,050</td> <td></td> </tr> <tr> <td style="padding-right: 10px;">Depreciation expense</td> <td style="text-align: right;"><u>(709,102)</u></td> <td style="text-align: right; vertical-align: bottom;">1,890,948</td> </tr> </table>	Capital outlays	\$ 2,600,050		Depreciation expense	<u>(709,102)</u>	1,890,948	1,890,948
Capital outlays	\$ 2,600,050						
Depreciation expense	<u>(709,102)</u>	1,890,948					
Change in deferred outflows of resources for pension obligation	240,403						
<p>In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, compensated absences earned were greater than amounts paid by:</p>							
	(4,271)						
<p>Accumulated retirement incentives paid were greater than amounts earned by:</p>							
	24,000						
<p>Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position, and does not affect the statement of activities.</p>							
	875,000						
<p>The amount financed by the bond proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the bond proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.</p>							
	(3,580,000)						
<p>Governmental funds report debt premiums and discounts as other financing sources (uses) or expenditures. However, in the statement of net position, these are reported as additions or deductions from long-term debt. These are allocated over the period the debt is outstanding in the statement of activities and are reported as interest expense.</p>							
<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding-right: 10px;">Amortization of bond premium</td> <td style="text-align: right;">168,934</td> </tr> <tr> <td style="padding-right: 10px;">Amortization of loss on refunding</td> <td style="text-align: right;">(55,753)</td> </tr> </table>	Amortization of bond premium	168,934	Amortization of loss on refunding	(55,753)	168,934 (55,753)		
Amortization of bond premium	168,934						
Amortization of loss on refunding	(55,753)						
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and notes payable.</p>							
	6,083						
Decrease in net pension obligation	544,008						
Change in deferred inflows of resources for pension obligation	<u>(522,006)</u>						
<b>Change in net position of governmental activities</b>	<b>\$ 1,109,483</b>						

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

# Mason County Central School District

## STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 347,390
Accounts receivable	<u>4,836</u>
Total assets	<u><u>\$ 352,226</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 7,000
Due to student groups	<u>345,226</u>
Total liabilities	<u><u>\$ 352,226</u></u>

# Mason County Central School District

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Mason County Central School District (the “School District”) is a Michigan public school district consisting of two elementary schools, a middle school, high school, early childhood center and the fiscal agent for the local early/middle college. The School District primarily serves portions of Oceana, Lake and Mason Counties. As of June 30, 2017, the School District employed 70 professional staff and 22 non-professional staff, and had 1,235 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of Mason County Central School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District’s financial activities for the fiscal year ended June 30, 2017.

#### *The Financial Reporting Entity*

Mason County Central School District is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other State and local governments. The financial reporting entity of Mason County Central School District includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District’s financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board (“GASB”) Statement No. 61, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

#### *District-Wide and Fund Financial Statements*

##### *District-Wide Financial Statements*

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

#### *Fund Financial Statements*

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

#### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

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

The District-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

#### *Fund Types and Major Funds*

##### *Activities in Major Funds*

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

The 2016 Capital Projects Fund is used to account for financial resources to be used for the acquisition or renovation of capital assets.

The 2006 QZAB Debt Service Fund is used to account for the accumulation of resources for, and the future payment of, 2006 QZAB bond principal, interest and related costs.

##### *Other Governmental Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are committed or restricted to expenditures for special purposes. The Food Service Fund is accounted for as a Special Revenue Fund.

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

##### *Fiduciary Funds*

The Agency Fund accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Student Activity Fund is an Agency Fund.

##### *Cash and Equivalents*

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

##### *Investments*

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 40 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings	30-40 years
Improvements, other than buildings	15-20 years
Vehicles	8 years
Furniture, machinery and equipment	5-20 years

***Long-Term Debt and Bond Discounts/Premiums***

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

***Deferred Inflows and Outflows***

In addition to assets and liabilities, the statement of financial position includes elements for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The School District items that qualify for reporting in this category are the deferred loss on debt refunding reported in the government-wide statement of net position and items related to the pension obligation. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note L for details of deferred outflows and inflows related to the pension obligation.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### ***Fund Balance***

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

#### ***Program Revenues***

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

The School District's most significant program revenues are Title I, At-Risk and School Lunch Programs, which are reported as operating grants and contributions.

#### ***Spending Policy***

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

#### ***Encumbrance Accounting***

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

#### ***Allocation of Expenses***

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

The School District has elected to not allocate indirect expenses.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### *Pension Plan*

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

#### *Use of Estimates in the Preparation of Financial Statements*

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

### NOTE B - BUDGETARY POLICY AND PRACTICE

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

***Excess of Expenditures over Appropriations in Budgeted Funds***

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2017, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Instruction	<u>\$7,440,404</u>	<u>\$7,615,420</u>	<u>\$ (175,016)</u>

**NOTE C - CASH AND INVESTMENTS**

At June 30, 2017, the School District's cash and investments include the following:

	<u>Balance Sheet Classification</u>			
	<u>Cash and Equivalents</u>	<u>Restricted Cash</u>	<u>Restricted Investments</u>	<u>Total</u>
Bank deposits and cash on hand	\$ 27,500	\$ 809	\$ -	\$ 28,309
Money market mutual funds	1,585,198	-	-	1,585,198
Government securities repurchase agreement	2,372,320	-	-	2,372,320
U.S. Treasury obligations	-	-	3,087,844	3,087,844
Total	<u>\$3,985,018</u>	<u>\$ 809</u>	<u>\$ 3,087,844</u>	<u>\$7,073,671</u>

Cash of all the funds of the School District is on deposit with financial institutions which provide FDIC insurance coverage, in highly liquid money funds or in United States Treasury obligations.

***Bank Deposits***

*Custodial Credit Risk - Deposits*

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2017, none of the School District's bank balance of \$28,309 was exposed to custodial risk because it was uninsured and uncollateralized.

***Investments***

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credits unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United State Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE C - CASH AND INVESTMENTS - Continued

Investment Type	Investment Maturities (in years)				
	Fair Value	Current	1-5	6-10	More than 10
Money market mutual funds	\$1,585,198	\$1,585,198	\$ -	\$ -	\$ -
Government securities repurchase agreement	2,372,320	2,372,320	-	-	-
U.S. Treasury obligations	3,087,844	3,087,844	-	-	-
<b>Total</b>	<b>\$7,045,362</b>	<b>\$7,045,362</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Custodial Credit Risk - Investments*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State law does not require and the School District does not have a specific policy pertaining to investment custodial credit risk which is more restrictive than State law. As of June 30, 2017, \$1,585,198 of the School Districts investments were uninsured and uncollateralized, and \$5,688,881 were collateralized by securities held by the pledging financial institution.

*Interest Rate Risk*

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in short-term securities and limiting the average maturity in accordance with the School District's cash requirements.

*Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limits its investment choices to investments considered to be "low-risk." The School District's investments in U.S. Treasury Obligations were rated AA+ by Standard and Poor's. The remaining investments in money market mutual funds and government securities repurchase agreements of \$3,957,518 were unrated at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE D - FAIR VALUE OF INVESTMENTS**

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The School District has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Treasury obligations	\$ -	\$ 3,087,844	\$ -	\$ 3,087,844

The School District's investments in money market mutual funds, government securities repurchase agreements and cash equivalents are not required to be classified by fair value.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

There have been no changes in the methodologies used at June 30, 2017.

*U.S. Treasury Obligations:* Valued at fair value using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE**

***Property Taxes Receivable, Deferred Inflows and Property Tax Calendar***

Property taxes are levied, billed and attached as enforceable liens in December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the counties and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the District-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTES TO FINANCIAL STATEMENTS – Continued

**NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE—**  
Continued

During the fiscal year, \$18.00 per \$1,000 of equalized non-principal residence property value of \$101,497,112 and \$6.00 per \$1,000 of equalized commercial personal property value of \$2,319,700 was levied for general operating purposes. For debt service purposes, \$3.93 per \$1,000 of equalized principal residence, non-principal residence and commercial personal property value of \$343,973,333 was levied.

***Intergovernmental Receivables, Unearned Revenue and Deferred Inflows***

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and deferred inflows - revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Revenue received after 60 days is fully recognized as revenue in the District-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2017 are as follows:

Due from the State of Michigan	
State aid	\$ 1,722,018
Other State grants	147,536
Other	<u>102,267</u>
	<u>\$ 1,971,821</u>

**NOTE F – TAX ABATEMENTS**

The School District had the following tax abatements for the year ended June 30, 2017:

<u>Tax Abatement Program</u>	<u>Tax Abated By</u>	<u>Gross Amount Abated</u>
Industrial Facilities Tax Exemption Public Act 198 of 1974	Mason County	\$ 8,187
Special exemptions	Mason County	<u>421</u>
		<u>\$ 8,608</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE G - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Site improvements	\$ 1,185,278	\$ -	\$ -	\$ 1,185,278
Buildings	24,784,347	-	-	24,784,347
Furniture and fixtures	2,472,755	112,427	-	2,585,182
Construction in progress	-	2,447,340	-	2,447,340
Buses and vehicles	110,112	40,283	-	150,395
<b>Total</b>	<b>28,552,492</b>	<b>2,600,050</b>	<b>-</b>	<b>31,152,542</b>
Less accumulated depreciation	(13,822,856)	(709,102)	-	(14,531,958)
Land	250,768	-	-	250,768
<b>Total capital assets, net</b>	<b>\$ 14,980,404</b>	<b>\$1,890,948</b>	<b>\$ -</b>	<b>\$ 16,871,352</b>

Depreciation expense of \$709,102 was unallocated in the statement of activities.

**NOTE H - STATE AID ANTICIPATION NOTE PAYABLE**

The State aid anticipation note is used to fund operations until State aid is received. The note is secured by July and August State aid payments, bearing interest at .69% and is due October 23, 2017. Changes in the State aid anticipation note payable during the year ended June 30, 2017 is as follows:

Beginning Balance	New Debt	Payments	Ending Balance
<u>\$ 2,150,000</u>	<u>\$ 2,050,000</u>	<u>\$ 2,150,000</u>	<u>\$ 2,050,000</u>

**NOTE I - LONG-TERM LIABILITIES**

Changes in long-term debt during the year ended June 30, 2017 were as follows:

	Beginning Balance	New Debt	Payments/ Extinguishment	Ending Balance	Current Portion
General obligation bonds	\$12,501,764	\$ 3,580,000	\$ (875,000)	\$15,206,764	\$ 755,000
Unamortized bond premium	1,332,524	-	(168,934)	1,163,590	168,934
Accumulated leave liability	255,105	4,271	-	259,376	-
Early retirement incentives	24,000	-	(24,000)	-	-
<b>Long-term debt June 30, 2017</b>	<u>\$14,113,393</u>	<u>\$ 3,584,271</u>	<u>\$ (1,067,934)</u>	<u>\$16,629,730</u>	<u>\$ 923,934</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE I - LONG-TERM LIABILITIES - Continued**

Payments on general obligation bonds are made by the Debt Service Funds. The accumulated leave liability and early retirement incentives will be liquidated primarily from the General Fund.

At June 30, 2017, the School District's long-term debt consisted of the following:

<b>2006 School Building and Site Bonds (QZAB);</b> due May 2021; no annual installments; 0% interest.	\$ 3,401,764
<b>2016 School Building and Site Bonds (QZAB),</b> due November 2031; no annual installments; 0% interest	3,580,000
<b>2014 Refunding Bonds;</b> due in annual installments of \$750,000 to \$1,100,000 through May 1, 2026; average interest rate of 4.729003%	<u>8,225,000</u>
Total general obligation bonds payable	15,206,764
Unamortized bond premium	1,163,590
Accumulated leave liability	<u>259,376</u>
Total long-term debt	<u>\$ 16,629,730</u>

At the School District's option, bonds can be redeemed prior to maturity at a premium.

Total annual requirement to amortize bonds as of June 30, 2017 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 755,000	\$ 379,050
2019	785,000	348,850
2020	4,216,764	317,450
2021	865,000	284,850
2022	905,000	250,250
2023-2032	<u>7,680,000</u>	<u>525,000</u>
Totals	<u>\$ 15,206,764</u>	<u>\$ 2,105,450</u>

Interest expense for the year ended June 30, 2017 was \$296,286 and interest paid for the year ended June 30, 2017 was \$415,550.

***Deferred Loss on Refunding***

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization</u>	<u>Ending Balance</u>
Total deferred loss on refunding	<u>\$ 529,651</u>	<u>\$ -</u>	<u>\$ 55,753</u>	<u>\$ 473,898</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE I - LONG-TERM LIABILITIES - Continued

#### *School Building and Site Bonds (QZAB)*

The 2006 School Building and Site Bonds are "qualified zone academy bonds" ("QZAB") under Section 1397E (d)(6) of the Internal Revenue Code, allowing holders of the bonds certain income tax credits. The QZAB bonds are due in May 2021 but require annual deposits of \$242,983 into an escrow account beginning May 2008. The escrow account balance was \$3,088,653 at June 30, 2017. The escrow deposits plus the interest earned thereon, which is fixed at 2.65%, will be sufficient to pay off the bonds upon maturity. Any spread from the escrow account will be paid to the purchaser of the bonds. In 2016 the district issued an additional \$3,580,000 QZAB bonds due in November, 2031 with annual deposits of \$238,667 into an escrow account beginning November, 2017.

#### *Accumulated Leave Liability*

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

### NOTE J - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Mason County Central School District. At June 30, 2017, there were no significant unbilled claims

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

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

NOTES TO FINANCIAL STATEMENTS – Continued

**NOTE K - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

***Receivables and Payables***

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

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 327,119
2016 Capital Projects Fund	308,818	-
Food Service Fund	18,301	
	<u>\$ 327,119</u>	<u>\$ 327,119</u>

***Transfers and Payments***

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The District-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

Fund	Transfer In	Transfer Out
General Fund	\$ -	\$ 158,373
Food Service	873	-
2002 Debt Service Fund	157,500	-
	<u>\$ 158,373</u>	<u>\$ 158,373</u>

**NOTE L - PENSION PLAN 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 and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at [www.michigan.gov/mspers-cafr](http://www.michigan.gov/mspers-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 are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

***Regular Retirement***

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE L - PENSION PLAN AND POST-EMPLOYMENT BENEFITS - Continued**

***Funding Policy***

*Defined Contribution Plan*

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

***Contributions and Funded 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 September 30, 2016 will be amortized over a 20 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 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 Contributions	0.0%	14.56%

Required contributions to the pension plan from the School District were \$1,326,771 for the year ended September 30, 2016.

The School District's contributions to the MPSERS Defined Contribution Plan were \$11,219, for the year ended June 30, 2017, which is equal to the pension expense recognized by the School District for the year.

***Post-Employment Benefits***

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE L - PENSION PLAN AND POST-EMPLOYMENT BENEFITS – Continued**

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

At June 30, 2017, the School District reported a liability of \$14,741,074 for its proportionate share of the MPSERS 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 proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2016, the School District's proportion was 0.05908%, which was a decrease of 0.00350% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$1,109,753. 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
Differences between expected and actual experience	\$ 183,713	\$ 34,937
Changes of assumptions	230,465	-
Net difference between projected and actual earnings on pension plan investments	244,997	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	21,014	988,522
School District contributions subsequent to the measurement date	717,667	-
	<u>717,667</u>	<u>-</u>
Total	<u>\$ 1,397,856</u>	<u>\$ 1,023,459</u>

From the above table, \$717,667 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year ended September 30	Amount
2017	\$ (179,172)
2018	(198,439)
2019	91,583
2020	(57,242)
	<u>\$ (343,270)</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE L - PENSION PLAN AND POST-EMPLOYMENT BENEFITS – Continued

#### *Actuarial Assumptions*

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

Additional information as of the latest actual valuation follows:

#### *Summary of Actuarial Assumptions*

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan:	7.0%
Projected Salary Increases	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

#### Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 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.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE L - PENSION PLAN AND POST-EMPLOYMENT BENEFITS - Continued

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate & Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
Total	100.0%	

*\*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 provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the 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:

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE L - PENSION PLAN AND POST-EMPLOYMENT BENEFITS - Continued**

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%)
\$ 18,982,793	\$ 14,741,074	\$ 11,164,897

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR") available at: [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

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

The School District reported \$116,078 and \$1,569 payable to the plan at June 30, 2017 for legally required defined benefit and defined contribution plan contributions, respectively.

**NOTE M - COMMITMENTS AND CONTINGENCIES**

*School Improvement Commitment*

As of June 30, 2017, the School District has committed to a total project cost of approximately \$3,580,000. Of this amount, the School District issued bonds in the amount of \$3,580,000. As of June 30, 2017, \$2,619,978 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$960,022. The 2016 Capital Projects Fund balance was \$963,329 at June 30, 2017. The expected completion date is October 2017.

*Collectively Bargained Employment Agreements*

The teachers of the School District are organized under the Mason County Central Education Association. The Board of Education and the Mason County Central Education Association had a contract through the year ended June 30, 2017. The salary schedule was increased by 1%. Longevity was frozen, for all teachers at Steps 1 and above unless the audited fund balance is at or exceeds 5% then the advancement will occur in the 17/18 school year. The longevity bonus at Steps 14, 19, 24 and 28, ranges from \$1,738 to \$7,531.

*Federal and State Grants*

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

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE N – SUBSEQUENT EVENTS**

*State Aid Borrowing*

In August 2017, the District approved borrowing against State Aid for \$1,900,000 for the year ending June 30, 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Mason County Central School District

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local and intermediate sources	\$ 2,113,096	\$ 2,106,421	\$ 2,128,922	\$ (6,675)	\$ 22,501
State revenues	8,677,326	9,225,421	9,284,342	548,095	58,921
Federal revenues	656,572	657,569	751,885	997	94,316
Incoming transfers and other transactions	860,150	546,690	540,332	(313,460)	(6,358)
Total revenues	<u>12,307,144</u>	<u>12,536,101</u>	<u>12,705,481</u>	<u>228,957</u>	<u>169,380</u>
Expenditures					
Instruction	7,394,199	7,440,404	7,615,420	(46,205)	(175,016)
Supporting Services	4,746,403	4,886,314	4,701,766	(139,911)	184,548
Total expenditures	<u>12,140,602</u>	<u>12,326,718</u>	<u>12,317,186</u>	<u>(186,116)</u>	<u>9,532</u>
<b>REVENUES OVER EXPENDITURES</b>	166,542	209,383	388,295	42,841	178,912
Other financing uses					
Operating transfers out	(169,000)	(170,750)	(158,373)	(1,750)	12,377
<b>REVENUES OVER EXPENDITURES AND OTHER FINANCING USES</b>	(2,458)	38,633	229,922	41,091	191,289
Fund balance, beginning of year	754,560	754,560	754,560	-	-
Fund balance, end of year	<u>\$ 752,102</u>	<u>\$ 793,193</u>	<u>\$ 984,482</u>	<u>\$ 41,091</u>	<u>\$ 191,289</u>

## Mason County Central Schools

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

#### Michigan Public School Employees Retirement Plan

	9/30/2016	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.05908%	0.06258%	0.65000%
School District's proportionate share of net pension liability	\$ 14,741,074	\$ 15,285,082	\$ 14,316,996
School District's covered-employee payroll	4,841,200	5,187,984	5,527,622
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	304.49%	294.62%	259.01%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

### SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS

#### Michigan Public School Employees Retirement Plan

	6/30/2017	6/30/2016	6/30/2015
Statutorily required employer contributions	\$ 957,013	\$ 1,207,242	\$ 1,148,545
School District contributions made to the Plan	957,013	1,207,242	1,148,545
Contributions deficiency (excess)	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 5,051,858	\$ 4,898,925	\$ 5,286,523
Contributions as a percentage of covered-employee payroll	18.94%	24.64%	21.73%

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

**Mason County Central School District**

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2017

	Special Revenue Fund	Debt Service Funds			Total Non-Major Funds
	Food Service	2002	2006	2014	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 15,752	\$ -	\$ 3,027	\$ 268,524	\$ 287,303
Due from other governments	40,539	-	-	-	40,539
Due from other funds	18,301	-	-	-	18,301
Other receivables	2,840	-	-	370	3,210
Inventories - supplies and materials	25,789	-	-	-	25,789
<b>Total assets</b>	<b>\$ 103,221</b>	<b>\$ -</b>	<b>\$ 3,027</b>	<b>\$ 268,894</b>	<b>\$ 375,142</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 4,874	\$ -	\$ -	\$ -	\$ 4,874
Salaries and benefits payable	800	-	-	-	800
<b>Total liabilities</b>	<b>5,674</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,674</b>
<b>FUND BALANCES</b>					
Nonspendable for inventories	25,789	-	-	-	25,789
Restricted for Food Service	71,758	-	-	-	71,758
Restricted for Debt Service	-	-	3,027	268,894	271,921
<b>Total fund balances</b>	<b>97,547</b>	<b>-</b>	<b>3,027</b>	<b>268,894</b>	<b>369,468</b>
<b>Total liabilities and fund balances</b>	<b>\$ 103,221</b>	<b>\$ -</b>	<b>\$ 3,027</b>	<b>\$ 268,894</b>	<b>\$ 375,142</b>

**Mason County Central School District**

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

Year Ended June 30, 2017

	Special Revenue Fund	Debt Service Funds			Total Non-Major Governmental Funds
	Food Service	2002	2006	2014	
<b>Revenues</b>					
Property taxes	\$ -	\$ -	\$ -	\$ 1,111,419	\$ 1,111,419
State revenues	21,150	-	-	78,279	99,429
Federal revenues	454,708	-	-	-	454,708
Interest	173	-	8	1,368	1,549
Other	227,429	-	-	-	227,429
<b>Total revenues</b>	<b>703,460</b>	<b>-</b>	<b>8</b>	<b>1,191,066</b>	<b>1,894,534</b>
<b>Expenditures</b>					
Food Service	719,817	-	-	-	719,817
Debt Service					
Principal	-	150,000	-	725,000	875,000
Interest	-	7,500	-	408,050	415,550
Other	-	-	7	500	507
Capital outlay	40,177	-	-	-	40,177
<b>Total expenditures</b>	<b>759,994</b>	<b>157,500</b>	<b>7</b>	<b>1,133,550</b>	<b>2,051,051</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(56,534)</b>	<b>(157,500)</b>	<b>1</b>	<b>57,516</b>	<b>(156,517)</b>
Other financing sources					
Operating transfers in	873	157,500	-	-	158,373
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	<b>(55,661)</b>	<b>-</b>	<b>1</b>	<b>57,516</b>	<b>1,856</b>
Fund balances, beginning of year	153,208	-	3,026	211,378	367,612
Fund balances, end of year	<u>\$ 97,547</u>	<u>\$ -</u>	<u>\$ 3,027</u>	<u>\$ 268,894</u>	<u>\$ 369,468</u>

## **FEDERAL PROGRAMS**

**Mason County Central School District**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2017

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Original Approved Award/Grant Amount	Receivable July 1, 2016	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Adjustments	Receivable June 30, 2017
United States Department of Education									
Passed through Michigan Department of Education									
Adult Education									
Federal Adult ABE Instruction	171130-171922	84.002A	\$ 40,000	\$ -	\$ -	\$ 21,551	\$ 40,000	\$ -	\$ 18,449
Federal Adult ABE Instruction	161130-161922		52,000	19,124	52,000	19,124	-	-	-
			92,000	19,124	52,000	40,675	40,000	-	18,449
Title I, Part A:									
E.S.E.A. Title I	171530-1617	84.010	384,154	-	-	294,169	319,174	-	25,005
E.S.E.A. Title I	161530-1516		305,014	41,009	187,536	53,590	12,581	-	-
			689,168	41,009	187,536	347,759	331,755	-	25,005
Migrant Education									
E.S.E.A. Title I Summer Migrant	171830-1617	84.011	39,945	-	-	-	13,948	-	13,948
E.S.E.A. Title I Summer Migrant	161830-1516		63,835	33,162	33,162	60,333	27,171	-	-
Migrant Regular Development	171890-1617		45,206	-	-	33,177	45,206	-	12,029
Migrant Regular Development	161890-1516		60,597	11,433	56,187	12,286	853	-	-
			209,583	44,595	89,349	105,796	87,178	-	25,977
Education for Homeless Children & Youth									
	172320-1617	84.196	23,366	-	-	20,836	23,366	-	2,530
	162320-1516		20,164	-	-	2,973	3,154	(181)	-
			43,530	-	-	23,809	26,520	(181)	2,530
Rural Education Title VI Part B									
	170660-1617	84.358	26,539	-	-	26,539	26,539	-	-
	160660-1516		24,589	1,236	24,589	1,236	-	-	-
			51,128	1,236	24,589	27,775	26,539	-	-
Improving Teacher Quality Title IIA									
	170520-1617	84.367	89,280	-	-	13,064	74,071	-	61,007
	160520-1516		91,535	64,434	78,519	66,000	1,566	-	-
			180,815	64,434	78,519	79,064	75,637	-	61,007
Total Michigan Department of Education			1,266,224	170,398	431,993	624,878	587,629	(181)	132,968

**Mason County Central School District**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2017

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Original Approved Award/Grant Amount	Receivable July 1, 2016	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Adjustments	Receivable June 30, 2017
United States Department of Agriculture									
Child Nutrition Cluster									
Passed through State Department of Education									
School Breakfast Program	171970	10.553	\$ 97,856	\$ -	\$ -	\$ 94,192	\$ 97,856	\$ -	\$ 3,664
	161970		99,243	91	89,749	9,585	9,494	-	-
Total School Breakfast Program			197,099	91	89,749	103,777	107,350	-	3,664
National School Lunch Program	171960	10.555	336,486	-	-	265,839	276,742	-	10,903
	161960		295,925	140	266,053	30,012	29,872	-	-
Entitlement Commodities			40,743	-	-	40,743	40,743	-	-
Total National School Lunch/Commodities			673,154	140	266,053	336,594	347,357	-	10,903
Summer Food Service Program for Children	160900	10.559	20,200	7,212	7,212	20,200	12,988	-	-
	161900		2,101	751	751	2,101	1,350	-	-
	170900		6,456	-	-	-	6,456	-	6,456
	171900		670	-	-	-	670	-	670
Total Summer Food Service Program for Children			29,427	7,963	7,963	22,301	21,464	-	7,126
Total Child Nutrition Cluster/United States Department of Agriculture			899,680	8,194	363,765	462,672	476,171	-	21,693
United States Department of Health and Human Services									
Passed through Area Agency on Aging of West Michigan, Inc.									
Aging Cluster									
Title III B Supportive Services 16/17		93.044	15,500	-	-	12,114	13,115	-	1,001
Title III B Supportive Services 15/16		93.044	14,961	-	6,940	5,951	5,951	-	-
Total Title III B Supportive Services			30,461	-	6,940	18,065	19,066	-	1,001
Nutrition Services									
Title III C1 16/17		93.045	21,000	-	-	11,828	13,472	-	1,644
Title III C1 15/16	61.7		22,208	-	15,865	6,343	6,343	-	-
Title III C2 16/17			46,535	-	-	27,060	30,926	-	3,866
Title III C2 15/16	61.7		64,342	-	40,839	23,503	23,503	-	-
Total Nutrition Services			154,085	-	56,704	68,734	74,244	-	5,510

The accompanying notes are an integral part of this financial schedule.

**Mason County Central School District**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2017

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Original Approved Award/Grant Amount	Receivable July 1, 2016	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Adjustments	Receivable June 30, 2017
Nutrition Services Incentive Program									
USDA-16/17		93.053	\$ 30,641	\$ -	\$ -	\$ 19,320	\$ 22,355	\$ -	\$ 3,035
USDA-15/16			41,433	-	27,562	13,871	13,871	-	-
Total Nutrition Services Incentive Program			72,074	-	27,562	33,191	36,226	-	3,035
Total Aging Cluster			256,620	-	91,206	119,990	129,536	-	9,546
Title IIIE 16/17	61.7	93.052	3,000	-	-	1,500	1,500	-	-
Title IIID16/17		93.043	5,000	-	-	666	666	-	-
Total National Family Caregiver Support			8,000	-	-	2,166	2,166	-	-
Total United States Department of Health and Human Services			264,620	-	91,206	122,156	131,702	-	9,546
Total			<u>\$ 2,430,524</u>	<u>\$ 178,592</u>	<u>\$ 886,964</u>	<u>\$ 1,209,706</u>	<u>\$ 1,195,502</u>	<u>\$ (181)</u>	<u>\$ 164,207</u>

The accompanying notes are an integral part of this financial schedule.

# Mason County Central School District

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

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

Federal expenditures per Schedule of Expenditures of Federal Award	\$1,195,502
Payments in lieu of taxes	11,272
Reductions in federal payments due to audits	<u>(181)</u>
Federal sources per financial statements	<u>\$1,206,593</u>



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

Board of Education  
Mason County Central School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Mason County Central School District** (the "School District") 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, and have issued our report thereon dated October 19, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

### **Compliance and Other Matters**

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

### **School District's Response to Findings**

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

October 19, 2017



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

Board of Education  
Mason County Central School District

**Report on Compliance for Each Major Federal Program**

We have audited *Mason County Central School District* (the "School District") compliance with the types of compliance requirements described in the OMB *Compliance Supplement*, that could have direct and material effect on each of the School District's major Federal programs for the year ended June 30, 2017. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the School District's compliance.

### ***Opinion on Each Major Federal Programs***

In our opinion, Mason County Central School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

October 19, 2017

# Mason County Central School District

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

### Prior Year

#### *Findings in Accordance with Governmental Auditing Standards*

##### **Finding Number 2016-001**

**Criteria:** Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

**Condition:** The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

**Cause:** The small size of the business office staff creates an inherent lack of segregation of duties.

**Effect:** As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

**Management's Response:** The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

**Current Status:** The finding is repeated for the year ended June 30, 2017.

### Current Year

#### *Section 1 - Summary of Auditor's Results*

1. The audit report on Mason County Central School District's financial statements was unmodified.
2. There was one material weakness reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with *Governmental Auditing Standards*.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no significant deficiencies disclosed that were related to a major program.
5. The report over compliance for major programs was unmodified.

## Mason County Central School District

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

6. The following are the School District's major programs:

Child Nutrition Cluster	
School Breakfast Program	CFDA# 10.553
National School Lunch Program	CFDA# 10.555
Summer Food Service	
Program for Children	CFDA# 10.559
Improving Teacher Quality Title II A	CFDA# 84.367

7. The dollar threshold for distinguishing between Type A and Type B programs was \$750,000.

8. The auditee did not qualify as low risk auditee.

### *Section 2 - Findings in Accordance with Governmental Auditing Standards*

#### **Finding Number 2017-001**

**Criteria:** Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

**Condition:** The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

**Cause:** The small size of the business office staff creates an inherent lack of segregation of duties.

**Effect:** As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

**Management's Response:** The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

### *Section 3 - Current Year Findings and Questioned Costs in Accordance with the Uniform Guidance*

No findings or questioned costs.