

Mason County Central School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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MASON COUNTY CENTRAL SCHOOLS

Management's Discussion and Analysis for Fiscal Year Ended June 30, 2016

Mason County Central Schools 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, 2016. 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, 2016 - 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, 2015</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Assets			
Current assets	<u>\$ 4,414,865</u>	<u>\$ 4,651,067</u>	5.4%
Noncurrent assets	<u>2,466,525</u>	<u>2,775,864</u>	12.5%
Capital assets	28,714,251	28,803,260	.3%
Less: Accumulated depreciation	<u>(13,081,398)</u>	<u>(13,822,856)</u>	5.7%
Capital assets, net book value	<u>15,632,853</u>	<u>14,980,404</u>	(4.2)%
Deferred Outflows of Resources	<u>2,001,586</u>	<u>1,687,104</u>	(15.7)%
Total assets and deferred outflows	<u><u>\$ 24,515,829</u></u>	<u><u>\$ 24,094,439</u></u>	(1.7)%
Liabilities			
Current liabilities	\$ 4,873,074	\$ 4,663,976	(4.3)%
Long-term liabilities	<u>28,433,680</u>	<u>28,330,541</u>	(4)%
Total liabilities	<u><u>\$ 33,306,754</u></u>	<u><u>\$ 32,994,517</u></u>	(9)%

Management’s Discussion and Analysis for Fiscal Year Ended June 30, 2016 – Continued

Summary of Net Position – continued

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Deferred Inflows of Resources	\$ 1,582,750	\$ 501,453	(68.3)%
Net position			
Invested in capital assets, net of related debt	\$ 1,332,452	\$ 1,703,644	27.9%
Restricted	2,709,028	3,076,420	13.6%
Unrestricted	<u>(14,415,155)</u>	<u>(14,181,595)</u>	1.6%
Total net position	<u>\$ (10,373,675)</u>	<u>\$ (9,401,531)</u>	9.4%
Total net position, deferred inflows and net position	<u>\$ 24,515,829</u>	<u>\$ 24,094,439</u>	(1.7)%

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 \$(10,373,675) at June 30, 2015 as restated per GASB 68 implementation and \$(9,401,531) at June 30, 2016. Current assets increased by \$236,202 in 2016 reflecting an increase in cash and cash equivalents. Non-current assets increased \$309,339 reflecting the growing set-aside account for the QZAB payment. Net positions, invested in capital assets, net of related debt increased by \$371,192. This figure reports the original cost, less depreciation of capital assets minus long-term debt used to finance these acquisitions. The increase 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. \$(14,415,155) and \$(14,181,595) of net position is unrestricted in 2015 and 2016, 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 \$14,316,996 and \$15,285,082 at June 30, 2015 and 2016, respectively.

Management’s Discussion and Analysis for Fiscal Year Ended June 30, 2016 – Continued

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

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Revenues			
General revenues			
Property taxes	\$ 3,175,603	\$ 3,267,610	2.9%
State unrestricted foundation	7,120,891	7,358,909	3.3%
Other	121,278	129,615	6.9%
Special item- gain on sale of fully depreciated vehicles	23,100	-	(100.0)%
Charges for services	375,612	403,998	7.6%
Operating grants/contributions	3,989,355	3,524,573	(11.7)%
Total revenues	<u>14,805,839</u>	<u>14,684,705</u>	(0.8)%
Expenditures			
Instruction	7,631,226	7,363,342	(3.5)%
Support services	4,578,866	4,645,443	1.5%
Food service	681,230	629,241	(7.6)%
Interest on long-term debt	484,362	333,077	(31.2)%
Depreciation	727,015	741,458	2.0%
Total expenditures	<u>14,102,699</u>	<u>13,712,561</u>	(2.8)%
Change in net position	<u>703,140</u>	<u>972,144</u>	38.3%
Net position – beginning of year	<u>(11,076,815)</u>	<u>(10,373,675)</u>	6.3%
Net position – end of year	<u>\$ (10,373,675)</u>	<u>\$ (9,401,531)</u>	9.4%

The School District’s total revenues decreased slightly by .8%. State revenues increased due to increased foundation amount and stable student count, but operating grants decreased due to reduced allocations of some Federal and State grants. In 2016, some activities were partially funded by those who benefited from the programs in the amount of \$403,998 or by governmental subsidies of \$3,524,573. The difference between these two figures and the total of the School District’s expenditures of \$13,712,561 is \$9,783,990. This clearly points out the significant reliance placed on State unrestricted resources of \$7,358,909 and local taxpayers’ dollars of \$3,267,610 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 \$972,144 in net position. This was primarily due to a decrease 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, 2016 - Continued

The School District's Funds

As of June 30, 2016, the combined governmental funds reported a fund balance of \$3,900,147 or an increase of \$704,397 over last year.

- General Fund reported an increase of \$343,755 to \$754,560.
- Debt Funds showed an increase of \$320,696 to \$2,992,379, 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 special revenue fund balance increased by \$39,946 to \$153,208.

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 \$421,612 from the original budget, reflecting an increase of approximately twenty-eight more students than originally budgeted for and the addition of a grant for the district's alternative classroom. Federal revenues decreased \$252,741 as a result of grant changes. Additionally, incoming transfers and other transactions decreased by \$52,168 under the original budget to reflect a decrease in payments from intermediate sources. The final budget for expenditures decreased \$23,568 from the original budget.
- Total actual revenues were over budget by \$159,353 and total actual expenditures were under by \$17,790, 1.3% and .1% respectively.

Capital Assets

At June 30, 2016 the School District had \$28,803,260 invested in capital assets including land, buildings, furniture, vehicles and equipment summarized as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets	\$ 28,714,251	\$ 89,009	\$ -	\$ 28,803,260
Less: Accumulated depreciation	<u>(13,081,398)</u>	<u>(741,458)</u>	<u>-</u>	<u>(13,822,856)</u>
Net investment capital outlay	<u>\$ 15,632,853</u>	<u>\$ (652,449)</u>	<u>\$ -</u>	<u>\$ 14,980,404</u>

Management's Discussion and Analysis for Fiscal Year Ended June 30, 2016 - Continued

Debt

A summary of bonded indebtedness follows:

<u>Balance</u> <u>June 30, 2015</u>	<u>New Debt</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>
\$ 13,381,764	\$ -	\$ (880,000)	\$ 12,501,764

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 2016-17 school year is 90% of the September 2016 student count and 10% of the February 2016 student count. Since State foundation revenue accounts for 59% of the School District's total General Fund revenue, student count is a critical component affecting the budget. The budget for the 2016-17 year adopted in June 2016 was based on an estimate of a reduction of 20 students to be counted in September.

The School District used a foundation amount of \$7,511 in calculating State revenues for the 2016-17 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 2016-17 basically maintains supply line items at the same level as 2015-16. The district will call back the final teacher on layoff for the 2016-17 year.

During the 2015-16 school year the district completed a capital needs review and is in the process of securing funding through Qualified Zone Academy Bonds for a \$3.6 million project focusing on energy improvements, technology and school security.

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, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2016, 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 vi, and budgetary comparison information on page 33, 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 14, 2016 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 14, 2016

Mason County Central School District

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,424,541
Due from other governments	1,998,414
Other receivables	7,367
Prepaid expenses	173,356
Inventory	47,389
Total current assets	4,651,067
Non-current assets	
Restricted cash	477
Restricted investments	2,775,387
Capital assets, net of accumulated depreciation	14,980,404
Total non-current assets	17,756,268
Total assets	22,407,335
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on debt refunding	529,651
Deferred outflows of resources for pension obligation	1,157,453
Total deferred outflows of resources	1,687,104
Total assets and deferred outflows of resources	\$ 24,094,439
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 180,776
State aid note payable	2,150,000
Salaries payable and related liabilities	1,178,651
Unearned revenue	7,989
Other accrued expenses	78,626
Current portion of long-term obligations	1,067,934
Total current liabilities	4,663,976
Non-current portion of long-term obligations	13,045,459
Net pension obligation	15,285,082
Total liabilities	32,994,517
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources for pension obligation	501,453
NET POSITION	
Invested in capital assets, net of related debt	1,703,644
Restricted	
Debt Service	2,923,212
Food Service	153,208
Unrestricted (deficit)	(14,181,595)
Total net position	(9,401,531)
Total liabilities, deferred inflows of resources and net position	\$ 24,094,439

The accompanying notes are an integral part of these statements.

Mason County Central School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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	\$ 7,363,342	\$ -	\$ 2,324,115	\$ (5,039,227)
Supporting Services	4,645,443	195,999	749,371	(3,700,073)
Food Service	629,241	207,999	451,087	29,845
Interest on long-term debt	333,077	-	-	(333,077)
Depreciation - unallocated*	741,458	-	-	(741,458)
Total governmental activities	\$ 13,712,561	\$ 403,998	\$ 3,524,573	(9,783,990)
General purpose revenues				
Property taxes				
Levied for general purposes				1,831,840
Levied for Debt Service				1,435,770
State school aid - unrestricted				7,358,909
Investment and other				129,615
				10,756,134
Change in net position				972,144
Net position - beginning of year				(10,373,675)
Net position - end of year				\$ (9,401,531)

* See Note E

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

Mason County Central School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	2006 QZAB Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,096,990	\$ 2,111	\$ 325,440	\$ 2,424,541
Due from other governments	1,980,465	-	17,949	1,998,414
Other receivables	4,324	-	3,043	7,367
Due from other funds	-	-	1,753	1,753
Inventories - supplies and materials	19,804	-	27,585	47,389
Prepaid expenditures	173,356	-	-	173,356
Restricted cash	-	477	-	477
Restricted investments	-	2,775,387	-	2,775,387
	\$ 4,274,939	\$ 2,777,975	\$ 375,770	\$ 7,428,684
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenditures	\$ 1,360,637	\$ -	\$ 8,158	\$ 1,368,795
Unearned revenue	7,989	-	-	7,989
Due to other funds	1,753	-	-	1,753
State aid anticipation note payable	2,150,000	-	-	2,150,000
	3,520,379	-	8,158	3,528,537
FUND BALANCES				
Nonspendable for inventories	19,804	-	27,585	47,389
Nonspendable for prepaid expenditures	173,356	-	-	173,356
Restricted for Food Service	-	-	125,623	125,623
Restricted for Debt Service	-	2,777,975	214,404	2,992,379
Committed for future unemployment	25,000	-	-	25,000
Assigned for transportation capital expenditures	45,500	-	-	45,500
Assigned for capital project debt issuance costs	107,400	-	-	107,400
Unassigned	383,500	-	-	383,500
	754,560	2,777,975	367,612	3,900,147
Total liabilities and fund balances	\$ 4,274,939	\$ 2,777,975	\$ 375,770	

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 \$28,803,260 and the accumulated depreciation is \$13,822,856			14,980,404
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		\$ 529,651	
Pension obligation		1,157,453	1,687,104
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		12,501,764	
Accrued interest on the bonds		69,258	
Unamortized bond premium		1,332,524	
Accumulated leave liability		255,105	
Early retirement incentives		24,000	
Net pension obligation		15,285,082	(29,467,733)
Deferred inflows of resources for pension obligation is not a financial resource and, therefore, is not reported as a liability in governmental funds.			(501,453)
Total net position - governmental activities			\$ (9,401,531)

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

Mason County Central School District

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

Year Ended June 30, 2016

	General Fund	2006 QZAB Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 1,831,840	\$ 254,136	\$ 1,181,672	\$ 3,267,648
State revenues	8,804,811	-	24,003	8,828,814
Federal revenues	666,242	-	427,085	1,093,327
Interest	3,641	66,521	1,088	71,250
Other	1,215,667	-	207,999	1,423,666
Total revenues	<u>12,522,201</u>	<u>320,657</u>	<u>1,841,847</u>	<u>14,684,705</u>
Expenditures				
Instruction	7,318,451	-	-	7,318,451
Supporting Services	4,606,857	-	-	4,606,857
Food Service	-	-	629,241	629,241
Debt Service				
Principal	-	-	880,000	880,000
Interest	-	-	455,500	455,500
Other	-	750	500	1,250
Capital outlay	89,009	-	-	89,009
Total expenditures	<u>12,014,317</u>	<u>750</u>	<u>1,965,241</u>	<u>13,980,308</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>507,884</u>	<u>319,907</u>	<u>(123,394)</u>	<u>704,397</u>
Other financing sources (uses)				
Operating transfers in	-	-	164,129	164,129
Operating transfers out	(164,129)	-	-	(164,129)
Total other financing sources (uses)	<u>(164,129)</u>	<u>-</u>	<u>164,129</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	343,755	319,907	40,735	704,397
Fund balances, beginning of year	410,805	2,458,068	326,877	3,195,750
Fund balances, end of year	<u>\$ 754,560</u>	<u>\$ 2,777,975</u>	<u>\$ 367,612</u>	<u>\$ 3,900,147</u>

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, 2016

Total net change in fund balances - governmental funds		\$ 704,397
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
	Capital outlays \$ 89,009	
	Depreciation expense <u>(741,458)</u>	(652,449)
Change in deferred outflows of resources for pension obligation		(258,729)
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 less than amounts paid by:		
		3,291
Accumulated retirement incentives paid were greater than amounts earned by:		60,000
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.		880,000
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.		
	Amortization of bond premium	171,517
	Amortization of loss on refunding	(55,753)
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.		
		6,659
Increase in net pension obligation		(968,086)
Change in deferred inflows of resources for pension obligation		<u>1,081,297</u>
Change in net position of governmental activities		<u><u>\$ 972,144</u></u>

Mason County Central School District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 331,417
Accounts receivable	<u>954</u>
Total assets	<u><u>\$ 332,371</u></u>
LIABILITIES	
Accounts payable	\$ 4,930
Due to student groups	<u>327,441</u>
Total liabilities	<u><u>\$ 332,371</u></u>

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

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, 2016, the School District employed 70 professional staff and 25 non-professional staff, and had 1,258 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, 2016.

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. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

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.

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.

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 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.

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 J for details of deferred outflows and inflows related to the pension obligation.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pension Plan

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

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, 2016, 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>\$7,251,487</u>	<u>\$7,318,451</u>	<u>\$ (66,964)</u>

NOTE C - CASH AND INVESTMENTS

At June 30, 2016, 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	\$ 477	\$ -	\$ 27,977
Money market mutual funds	658,968	-	-	658,968
Government securities repurchase agreement	2,069,490	-	-	2,069,490
U.S. Treasury obligations	<u>-</u>	<u>-</u>	<u>2,775,387</u>	<u>2,775,387</u>
Total	<u>\$2,755,958</u>	<u>\$ 477</u>	<u>\$ 2,775,387</u>	<u>\$5,531,822</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, 2016, none of the School District's bank balance of \$28,277 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	\$ 658,968	\$ 658,968	\$ -	\$ -	\$ -
Government securities repurchase agreement	2,069,490	2,069,490	-	-	-
U.S. Treasury obligations	2,775,387	2,775,387	-	-	-
Total	\$5,503,845	\$5,503,845	\$ -	\$ -	\$ -

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, 2016, \$658,968 of the School Districts investments were uninsured and uncollateralized, and \$5,193,687 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 \$2,728,458 were unrated at June 30, 2016.

NOTE D - 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.

During the fiscal year, \$18.00 per \$1,000 of equalized non-principal residence property value of \$100,939,486 and \$6.00 per \$1,000 of equalized commercial personal property value of \$2,287,500 was levied for general operating purposes. For debt service purposes, \$4.19 per \$1,000 of equalized principal residence, non-principal residence and commercial personal property value of \$342,344,115 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, 2016 are as follows:

Due from the State of Michigan	
State aid	\$1,705,428
Other State grants	179,924
Other	<u>113,062</u>
	<u>\$1,998,414</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Site improvements	\$ 1,185,278	\$ -	\$ -	\$ 1,185,278
Buildings	24,784,347	-	-	24,784,347
Furniture and fixtures	2,383,746	89,009	-	2,472,755
Buses and vehicles	110,112	-	-	110,112
Total	28,463,483	89,009	-	28,552,492
Less accumulated depreciation	(13,081,398)	(741,458)	-	(13,822,856)
Land	250,768	-	-	250,768
Total capital assets, net	\$ 15,632,853	\$(652,449)	\$ -	\$ 14,980,404

Depreciation expense of \$741,458 was unallocated in the statement of activities.

NOTE F - 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 .62% and is due October 21, 2016. Changes in the State aid anticipation note payable during the year ended June 30, 2016 is as follows:

Beginning Balance	New Debt	Payments	Ending Balance
\$ 2,200,000	\$ 2,150,000	\$ 2,200,000	\$ 2,150,000

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2016 were as follows:

	Beginning Balance	New Debt	Payments/ Extinguishment	Ending Balance	Current Portion
General obligation bonds	\$13,381,764	\$ -	\$ (880,000)	\$12,501,764	\$ 875,000
Unamortized bond premium	1,504,041	-	(171,517)	1,332,524	168,934
Accumulated leave liability	258,396	-	(3,291)	255,105	-
Early retirement incentives	84,000	-	(60,000)	24,000	24,000
Long-term debt June 30, 2016	\$15,228,201	\$ -	\$(1,114,808)	\$14,113,393	\$1,067,934

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE G - 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, 2016, the School District's long-term debt consisted of the following:

2006 School Building and Site Bonds (QZAB) ; due May 2020; no annual installments; 0% interest.	\$ 3,401,764
2002 Energy Conservation Improvement Bonds ; due in annual installments of \$75,000 to \$150,000 through May 1, 2017; average interest rate of 3.5925%.	150,000
2014 Refunding Bonds ; due in annual installments of \$0 to \$1,100,000 through May 1, 2026; average interest rate of 4.729003%	<u>8,950,000</u>
Total general obligation bonds payable	12,501,764
Unamortized bond premium	1,332,524
Accumulated leave liability	255,105
Early retirement incentives	<u>24,000</u>
Total long-term debt	<u>\$14,113,393</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, 2016 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 875,000	\$ 415,550
2018	755,000	379,050
2019	785,000	348,850
2020	4,216,764	317,450
2021	865,000	284,850
2022-2026	<u>5,005,000</u>	<u>775,250</u>
Totals	<u>\$ 12,501,764</u>	<u>\$ 2,521,000</u>

Interest expense for the year ended June 30, 2016 was \$333,077 and interest paid for the year ended June 30, 2016 was \$455,500.

Deferred Loss on Refunding

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization</u>	<u>Ending Balance</u>
Total deferred loss on refinancing	<u>\$ 585,404</u>	<u>\$ -</u>	<u>\$ 55,753</u>	<u>\$ 529,651</u>

NOTE G - 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 \$2,775,864 at June 30, 2016. 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.

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.

Early Retirement Incentives

Certain employees of the School District are eligible to receive early retirement benefits from the School District for up to three years. The amount recorded consists of individuals currently receiving benefits. There is no amount recorded for eligible employees not yet receiving benefits as the benefit amount cannot be estimated.

NOTE H - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Mason County Central School District. At June 30, 2016, 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.

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE H - RISK MANAGEMENT - Continued

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.

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

Receivables and Payables

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

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 1,753
Food Service Fund	1,753	-
	<u>\$ 1,753</u>	<u>\$ 1,753</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	\$ -	\$ 164,129
Food Service	9,979	-
2002 Debt Service Fund	154,150	-
	<u>\$ 164,129</u>	<u>\$ 164,129</u>

NOTE J - 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 and defined contribution 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 System's financial statements are available at 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.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPERS who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution ("DC") tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50% employee match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

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.

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, 2015 will be amortized over a 21 year period for the 2015 fiscal year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - PENSION PLAN AND POST-EMPLOYMENT BENEFITS – Continued

The schedule below summarizes pension contribution rates in effect for the Plan’s fiscal year September 30, 2015:

Pension Contribution Rates

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

Required contributions to the pension plan from the School District were \$1,207,242 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$6,734, for the year ended June 30, 2016, 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.

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

At June 30, 2016, the School District reported a liability of \$15,285,082 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's 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, 2015, the School District's proportion was 0.06258% percent, which was a decrease of .00242% from its proportion measured as of September 30, 2014.

NOTES TO FINANCIAL STATEMENTS - Continued

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

For the year ended June 30, 2016, the School District recognized pension expense of \$1,178,329. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 50,629
Changes of assumptions	376,351	-
Net difference between projected and actual earnings on pension plan investments	78,018	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,752	450,824
School District contributions subsequent to the measurement date	674,332	-
	<u>1,157,453</u>	<u>501,453</u>
Total	<u>\$ 1,157,453</u>	<u>\$ 501,453</u>

From the above table, \$674,332 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2017	\$ (70,696)
2018	(70,697)
2019	(91,104)
2020	214,165

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 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:

NOTES TO FINANCIAL STATEMENTS - Continued

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

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
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, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: 4.7158 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

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, 2015, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS - Continued

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	.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	 <u>100.0%</u>	

*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:

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%)
\$ 19,706,388	\$ 15,285,082	\$ 11,557,739

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"). The 2015 MPERS CAFR is available at: www.michigan.gov/mpers-cafr.

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

The School District reported \$292,488 and \$732 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions, respectively.

Required Supplemental Information - 10-Year Trend Information

Schedule of School District's Proportionate Share of Net Pension Liability		
	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.06258%	0.06500%
School District's proportionate share of net pension liability	\$ 15,285,082	\$ 14,316,996
School District's covered-employee payroll	5,187,984	5,527,622
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	294.62%	259.01%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

Schedule of School District's Contributions		
	6/30/2016	6/30/2015
Statutorily required employer contributions	\$ 1,027,242	\$ 1,148,545
School district contributions made to the Plan	1,027,242	1,148,545
Contributions deficiency (excess)	\$ -	\$ -
School District's covered-employee payroll	\$ 4,898,925	\$ 5,286,523
Contributions as a percentage of covered-employee payroll	19.99 %	21.73 %

Change of benefit terms: There were no changes of benefit terms in 2015.

Change in assumptions: There were no changes of benefit assumptions in 2015.

NOTE K - COMMITMENTS AND CONTINGENCIES

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, 2016. The salary schedule, including longevity, was frozen, for all teachers at Steps 1 and above. 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.

State Aid Borrowing (B/I)

In August 2016, the District approved borrowing against State Aid for \$2,050,000 the year ending June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Mason County Central School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local and intermediate sources	\$ 2,274,364	\$ 2,343,846	\$ 2,386,356	\$ 69,482	\$ 42,510
State revenues	8,311,418	8,733,030	8,804,811	421,612	71,781
Federal revenues	909,313	656,572	666,242	(252,741)	9,670
Incoming transfers and other transactions	681,568	629,400	664,792	(52,168)	35,392
Total revenues	<u>12,176,663</u>	<u>12,362,848</u>	<u>12,522,201</u>	<u>186,185</u>	<u>159,353</u>
Expenditures					
Instruction	7,329,451	7,251,487	7,318,451	77,964	(66,964)
Supporting Services	4,679,088	4,780,620	4,695,866	(101,532)	84,754
Total expenditures	<u>12,008,539</u>	<u>12,032,107</u>	<u>12,014,317</u>	<u>(23,568)</u>	<u>17,790</u>
REVENUES OVER EXPENDITURES	168,124	330,741	507,884	162,617	177,143
Other financing uses					
Operating transfers out	(165,650)	(174,616)	(164,129)	(8,966)	10,487
REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	2,474	156,125	343,755	153,651	187,630
Fund balance, beginning of year	<u>410,805</u>	<u>410,805</u>	<u>410,805</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 413,279</u>	<u>\$ 566,930</u>	<u>\$ 754,560</u>	<u>\$ 153,651</u>	<u>\$ 187,630</u>

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

Mason County Central School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Fund	Debt Service Funds			Total Non-Major Funds
	Food Service	2002	2006	2014	
ASSETS					
Cash and cash equivalents	\$ 111,036	\$ -	\$ 3,026	\$ 211,378	\$ 325,440
Due from other governments	17,949	-	-	-	17,949
Due from other funds	1,753	-	-	-	1,753
Other receivables	3,043	-	-	-	3,043
Inventories - supplies and materials	27,585	-	-	-	27,585
	<u>27,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,585</u>
Total assets	<u>\$ 161,366</u>	<u>\$ -</u>	<u>\$ 3,026</u>	<u>\$ 211,378</u>	<u>\$ 375,770</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenditures	\$ 8,158	\$ -	\$ -	\$ -	\$ 8,158
	<u>8,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,158</u>
FUND BALANCES					
Nonspendable for inventories	27,585	-	-	-	27,585
Restricted for Food Service	125,623	-	-	-	125,623
Restricted for Debt Service	-	-	3,026	211,378	214,404
	<u>-</u>	<u>-</u>	<u>3,026</u>	<u>211,378</u>	<u>214,404</u>
Total fund balances	<u>153,208</u>	<u>-</u>	<u>3,026</u>	<u>211,378</u>	<u>367,612</u>
Total liabilities and fund balances	<u>\$ 161,366</u>	<u>\$ -</u>	<u>\$ 3,026</u>	<u>\$ 211,378</u>	<u>\$ 375,770</u>

Mason County Central School District

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

Year Ended June 30, 2016

	Special Revenue Fund	Debt Service Funds			Total Non-Major Governmental Funds
	Food Service	2002	2006	2014	
Revenues					
Property taxes	\$ -	\$ -	\$ 761,015	\$ 420,657	\$ 1,181,672
State revenues	24,003	-	-	-	24,003
Federal revenues	427,085	-	-	-	427,085
Interest	121	-	501	466	1,088
Other	207,999	-	-	-	207,999
Total revenues	<u>659,208</u>	<u>-</u>	<u>761,516</u>	<u>421,123</u>	<u>1,841,847</u>
Expenditures					
Food Service	629,241	-	-	-	629,241
Debt Service					
Principal	-	140,000	740,000	-	880,000
Interest	-	14,150	33,300	408,050	455,500
Other	-	-	-	500	500
Total expenditures	<u>629,241</u>	<u>154,150</u>	<u>773,300</u>	<u>408,550</u>	<u>1,965,241</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>29,967</u>	<u>(154,150)</u>	<u>(11,784)</u>	<u>12,573</u>	<u>(123,394)</u>
Other financing sources					
Operating transfers in	9,979	154,150	-	-	164,129
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	39,946	-	(11,784)	12,573	40,735
Fund balances, beginning of year	113,262	-	14,810	198,805	326,877
Fund balances, end of year	<u>\$ 153,208</u>	<u>\$ -</u>	<u>\$ 3,026</u>	<u>\$ 211,378</u>	<u>\$ 367,612</u>

FEDERAL PROGRAMS

Mason County Central School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Original Approved Award/Grant Amount	Receivable July 1, 2015	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Receivable June 30, 2016
United States Department of Education								
Passed through Michigan Department of Education								
Adult Education								
Federal Adult ABE Instruction	151130-151922	84.002A	\$ 40,000	\$ 1,415	\$ 40,000	\$ 1,415	\$ -	\$ -
Federal Adult ABE Instruction	161130-161922		52,000	-	-	32,876	52,000	19,124
			<u>92,000</u>	<u>1,415</u>	<u>40,000</u>	<u>34,291</u>	<u>52,000</u>	<u>19,124</u>
Title I, Part A:								
E.S.E.A. Title I	151530-1415	84.010	327,162	35,180	253,909	76,221	41,041	-
E.S.E.A. Title I	161530-1516		305,014	-	-	146,527	187,536	41,009
E.S.E.A. Title I	131530-1213		344,103	-	278,697	(11,955)	-	-
			<u>976,279</u>	<u>35,180</u>	<u>532,606</u>	<u>210,793</u>	<u>228,577</u>	<u>41,009</u>
Migrant Education								
E.S.E.A. Title I Summer Migrant	151830-1415	84.011	49,642	14,572	17,456	46,758	32,186	-
E.S.E.A. Title I Summer Migrant	161830-1516		63,835	-	-	-	33,162	33,162
Migrant Regular Development	151890-1415		58,453	6,018	55,208	6,018	-	-
Migrant Regular Development	161890-1516		60,597	-	-	44,754	56,187	11,433
			<u>232,527</u>	<u>20,590</u>	<u>72,664</u>	<u>97,530</u>	<u>121,535</u>	<u>44,595</u>
Education for Homeless Children & Youth								
	152320-1415	84.196	22,333	-	20,355	(1,978)	-	-
	162320-1516		20,164	-	-	18,988	18,988	-
			<u>42,497</u>	<u>-</u>	<u>20,355</u>	<u>17,010</u>	<u>18,988</u>	<u>-</u>
Rural Education Title VI Part B								
	160660-1516	84.358	24,589	-	-	23,353	24,589	1,236
Improving Teacher Quality Title IIA								
	150520-1415	84.367	89,466	15,483	65,627	27,205	11,722	-
	160520-1516		91,535	-	-	14,085	78,519	64,434
			<u>181,001</u>	<u>15,483</u>	<u>65,627</u>	<u>41,290</u>	<u>90,241</u>	<u>64,434</u>
Total Michigan Department of Education			<u>1,548,893</u>	<u>72,668</u>	<u>731,252</u>	<u>424,267</u>	<u>535,930</u>	<u>170,398</u>

Mason County Central School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Original Approved Award/Grant Amount	Receivable July 1, 2015	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Receivable June 30, 2016
United States Department of Agriculture								
Child Nutrition Cluster								
Passed through Michigan Department of Education								
School Breakfast Program	151970	10.553	\$ 94,037	\$ -	\$ 86,544	\$ 7,493	\$ 7,493	\$ -
	161970		89,749	-	-	89,658	89,749	91
Total School Breakfast Program			183,786	-	86,544	97,151	97,242	91
National School Lunch Program	151960	10.555	289,122	-	-	25,226	25,226	-
	161960		266,053	-	-	265,913	266,053	140
Entitlement Commodities			38,563	-	-	38,563	38,563	-
Total National School Lunch/Commodities			593,738	-	-	329,702	329,842	140
Summer Food Service Program for Children	160900	10.559	7,212	-	-	-	7,212	7,212
	161900		751	-	-	-	751	751
	150900		23,334	10,065	10,065	23,334	13,269	-
	151900		2,426	1,046	1,046	2,426	1,380	-
Total Summer Food Service Program for Children			33,723	11,111	11,111	25,760	22,612	7,963
Total Child Nutrition Cluster/United States Department of Agriculture			811,247	11,111	97,655	452,613	449,696	8,194
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 14/15		93.044	14,661	6,350	14,159	6,350	-	-
Title III B Supportive Services 15/16		93.044	14,961	-	-	6,940	6,940	-
Total Title III B Supportive Services			29,622	6,350	14,159	13,290	6,940	-

Mason County Central School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Grantor's Number	Federal CFDA Number	Original Approved Award/Grant Amount	Receivable July 1, 2015	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Receivable June 30, 2016
Nutrition Services								
Title III C1 14/15		93.045	\$ 19,038	\$ 3,173	\$ 14,281	\$ 4,760	\$ 1,587	\$ -
Title III C1 15/16	61.7		19,038	-	-	15,865	15,865	-
Title III C2 14/15			46,535	3,197	37,415	12,021	8,824	-
Title III C2 15/16	61.7		<u>46,535</u>	<u>-</u>	<u>-</u>	<u>40,839</u>	<u>40,839</u>	<u>-</u>
Total Nutrition Services			<u>131,146</u>	<u>6,370</u>	<u>51,696</u>	<u>73,485</u>	<u>67,115</u>	<u>-</u>
Nutrition Services Incentive Program								
USDA-14/15		93.053	36,929	4,155	29,322	9,232	5,077	-
USDA-15/16			<u>32,922</u>	<u>-</u>	<u>-</u>	<u>27,562</u>	<u>27,562</u>	<u>-</u>
Total Nutrition Services Incentive Program			<u>69,851</u>	<u>4,155</u>	<u>29,322</u>	<u>36,794</u>	<u>32,639</u>	<u>-</u>
Total Aging Cluster			<u>230,619</u>	<u>16,875</u>	<u>95,177</u>	<u>123,569</u>	<u>106,694</u>	<u>-</u>
Title III E 14/15								
Title III E 15/16	61.7	93.052	6,734	1,926	1,926	1,926	-	-
			<u>6,734</u>	<u>-</u>	<u>-</u>	<u>2,976</u>	<u>2,976</u>	<u>-</u>
Total National Family Caregiver Support			<u>13,468</u>	<u>1,926</u>	<u>1,926</u>	<u>4,902</u>	<u>2,976</u>	<u>-</u>
Total United States Department of Health and Human Services			<u>244,087</u>	<u>18,801</u>	<u>97,103</u>	<u>128,471</u>	<u>109,670</u>	<u>-</u>
Total			<u>\$ 2,604,227</u>	<u>\$ 102,580</u>	<u>\$ 926,010</u>	<u>\$ 1,005,351</u>	<u>\$ 1,095,296</u>	<u>\$ 178,592</u>

Mason County Central School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

- 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	\$1,095,296
Payments in lieu of taxes	11,964
Reductions in federal payments due to audits	<u>(13,933)</u>
Federal sources per financial statements	<u>\$1,093,327</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, 2016, 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 14, 2016.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2016-001 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 14, 2016



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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, 2016. 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, 2016.

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 14, 2016

Mason County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2016

Prior Year

Findings in Accordance with Governmental Auditing Standards

Finding Number 2015-001

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, 2016.

Finding Number 2015-002

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

Eligibility – Calculation of free and reduced meals

Immaterial Noncompliance

Criteria: Per Federal regulations 7 CFR §245.2, §245.3, and §245.6, Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals.

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

Cause: Application was misread.

Effect: Meal reimbursement claims were immaterially overstated.

Mason County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Context: The School District has downsized its staff over the years creating additional responsibilities for the remaining staff.

Questioned Costs: None.

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

Management's Response and Corrective Actions: The School District evaluated the responsibilities among staff given the restriction of the District's staff size. The cost associated with adding additional staff in the business office to reduce the responsibilities of the current individuals is not justified by the expected benefits. However, the food service director now reviews applications and follow up on application discrepancies is made.

Responsible Party for Corrective Action: Jeff Mount, Superintendent, and Kristie Courtland-Willick, Business Manager.

Completion Date: September 2015.

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.
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
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.

Mason County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

June 30, 2016

Section 2 - 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.

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

No findings or questioned costs.