



# WEINLANDER FITZHUGH

BAY-ARENAC COMMUNITY HIGH SCHOOL  
ESSEXVILLE, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2017

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

October 10, 2017

Board of Directors  
Bay-Arenac Community High School  
Essexville, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Bay-Arenac Community High School (High School), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the High School'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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 High School'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 High School'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 Bay-Arenac Community High School as of June 30, 2017 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Directors  
Bay-Arenac Community High School  
October 10, 2017

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the High School's basic financial statements. The nonmajor fund financial statements are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The nonmajor fund financial statements 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 U.S. generally accepted auditing standards. In our opinion, the nonmajor fund financial statements 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 10, 2017, on our consideration of the High School'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 High School's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

Our discussion and analysis of Bay-Arenac Community High School's (High School) financial performance provides an overview of the High School's financial activities for the fiscal year ended June 30, 2017.

**Financial Highlights**

The High School's net position increased by \$74,362 or 10%. Program revenues were \$240,994 or 14% of total revenues, and general revenues were \$1,431,099 or 86%.

The General Fund reported a positive fund balance of \$558,473.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bay-Arenac Community High School financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole High School, presenting both an aggregate view of the High School's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the High School's operations in more detail than the district-wide financial statements by providing information about the High School's most significant fund - the General Fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the High School acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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)

Pension Schedules (Required Supplemental Information)

Other Supplemental Information

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

**Reporting the District as a Whole**

*The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the High School's finances is: "Is the High School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the High School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the High School's net position as a way to measure the High School's financial position. The change in net position provides the reader a tool to assist in determining whether the High School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the High School.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The High School's fund financial statements provide detailed information about the most significant funds - not the High School as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The High School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the High School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the High School's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the High School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Fiduciary Funds*

The High School is the trustee, or fiduciary, for its student activity funds. All of the High School's fiduciary activities are reported in the separate Statement of Fiduciary Net Position. We exclude these activities from the High School's other financial statements because the assets cannot be utilized by the High School to finance its operations.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2017

**District-wide Financial Analysis**

The statement of net position provides the perspective of the High School as a whole. Exhibit A provides a summary of the High School's net position as of June 30, 2017 and 2016:

<b>Exhibit A</b>	Governmental Activities	
	2017	2016
<b>Assets</b>		
Current and other assets	\$ 840,775	\$ 975,400
Capital assets - net of accumulated depreciation	473,492	322,075
Total assets	1,314,267	1,297,475
<b>Deferred Outflows of Resources</b>		
Related to pensions	287,400	271,532
<b>Liabilities</b>		
Current liabilities	279,097	331,313
Long-term liabilities	1,820,701	1,899,217
Total liabilities	2,099,798	2,230,530
<b>Deferred Inflows of Resources</b>		
Related to pensions	153,333	64,303
<b>Net Position</b>		
Net investment in capital assets	473,492	322,075
Unrestricted	(1,124,956)	(1,047,901)
Total net position	\$ (651,464)	\$ (725,826)

The analysis on the previous page focuses on net position (see Exhibit A). The High School's net position of governmental activities was \$(651,464) at June 30, 2017.

The \$(1,124,956) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The High School implemented GASB Statement No. 68 in 2015. The effect of this Statement required the High School to report in the summary of net position, a liability of \$1,820,701 for 2017 and \$1,899,217 for 2016.



**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2017

The results of this year's operations for the High School as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2017 and 2016.

<b>Exhibit B</b>	Governmental Activities	
	2017	2016
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 76,495	\$ 69,527
Grants and categoricals	164,499	263,213
General revenue:		
State aid	1,318,820	1,452,937
Other	112,279	113,958
Total revenues	1,672,093	1,899,635
<b>Function/Program Expenses</b>		
Instruction	480,689	485,482
Support	1,026,681	1,072,611
Community services	500	1,103
Food services	74,885	69,297
Depreciation (unallocated)	14,976	7,499
Total expenses	1,597,731	1,635,992
<b>Change in Net Position</b>	<b>\$ 74,362</b>	<b>\$ 263,643</b>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$1,597,731. Certain activities were partially funded from those who benefited from the programs, \$76,495, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$164,499. We paid for the remaining "public benefit" portion of our governmental activities with \$1,318,820 in State aid and with our other revenues, such as interest and entitlements.

The High School's governmental activities had an increase in net position of \$74,362. The increase in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

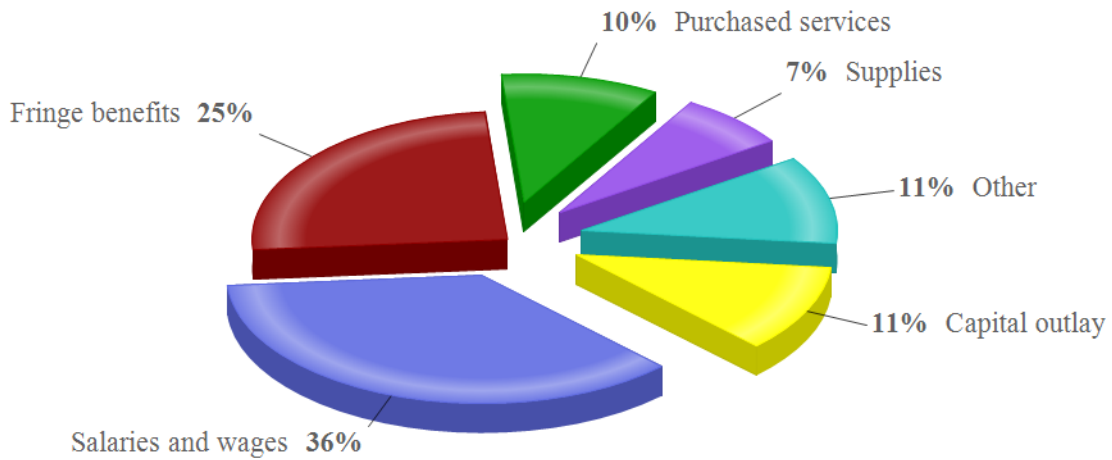
**The High School's Funds**

The High School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the High School is being accountable for the resources taxpayers and others provide to it and may provide more insight into the High School's overall financial health.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2017

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The High School by nature is a labor intensive organization.

**Expenditures**



Expenditures by Object	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 606,738	\$ 621,469
Fringe benefits	418,612	410,568
Purchased services	171,269	254,779
Supplies	109,447	160,331
Capital outlay	181,790	0
Other	187,723	109,352
Total	<u>\$ 1,675,579</u>	<u>\$ 1,556,499</u>

Expenditures have increased by \$119,080 from the prior year. While salaries and wages showed a slight decrease, fringe benefits expenditures increased with the rise in health care premiums. Other increases in expenditures included payments to the Bay-Arenac ISD for a contracted special education teacher and custodial services as well as the charter fee. However, the main reason for an increase in expenditures was the capital outlay expense of one new boiler and one new chiller for the school.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
 Management's Discussion and Analysis  
For the Year Ended June 30, 2017

**General Fund Budgetary Highlights**

Over the course of the year, the High School revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the High School's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues increased due to revisions in projected state aid funding and anticipated WIOA funding.
- Budgeted expenditures increased due to the need for a new boiler and a new chiller in the school's HVAC system.
- Actual revenues increased over the final amended budget due to a further increase in state aid.
- Actual expenditures decreased slightly over budgeted expenditures.

**Capital Assets**

At June 30, 2017, the High School had \$473,492 invested in land and a building.

	2017	2016
Land	\$ 50,000	\$ 50,000
Building and improvements	459,456	293,063
Total capital assets	509,456	343,063
Less accumulated depreciation	35,964	20,988
Net capital assets	\$ 473,492	\$ 322,075

There were \$166,393 additions this year for a boiler/chiller.

**Factors Expected to have an Effect on Future Operations**

Our elected Board and administration consider many factors when setting the High School's 2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2018 fiscal year budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017. Under State law, the High School cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017-2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the High School to amend the budget if actual district resources are not sufficient to fund original appropriations.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

Since the High School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2017-2018.

Other factors affecting next year are structural repair needs which are becoming more obvious as well as the need to replace/repair much of the school's technology.

**Requests for Information**

This financial report is designed to provide a general overview of the High School's finances for all those with an interest in the High School. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent  
Bay-Arenac Community High School  
805 Langstaff St.  
Essexville, MI 48732

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Statement of Net Position  
June 30, 2017

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 537,753
Receivables - net:	
Accounts receivable	23,257
Due from other governmental units	274,952
Prepaid expenses	4,813
Capital assets less accumulated depreciation of \$35,964	473,492
Total assets	1,314,267
<u>Deferred Outflows of Resources</u>	
Related to pensions	287,400
<u>Liabilities</u>	
Accounts payable	115,453
Accrued payroll and other liabilities	119,796
Unearned revenue	43,848
Long-term liabilities:	
Net pension liability	1,820,701
Total liabilities	2,099,798
<u>Deferred Inflows of Resources</u>	
Related to pensions	153,333
<u>Net Position</u>	
Net investment in capital assets	473,492
Unrestricted	(1,124,956)
Total net position	\$ (651,464)

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Statement of Activities  
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	Program Revenues			Governmental Activities
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>	
Primary government -				
Governmental activities:				
Instruction	\$ 480,689	\$ 0	\$ 164,499	\$ (316,190)
Support	1,026,681	0	0	(1,026,681)
Community services	500	0	0	(500)
Food services	74,885	76,495	0	1,610
Depreciation (unallocated)	14,976	0	0	(14,976)
Total governmental activities	\$ 1,597,731	\$ 76,495	\$ 164,499	(1,356,737)
General revenues:				
State aid				1,318,820
Interest and investment earnings				484
Other				111,795
Total general revenues				1,431,099
Change in net position				74,362
Net position - beginning of year				(725,826)
Net position - end of year				\$ (651,464)

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
 Governmental Funds  
 Balance Sheet  
June 30, 2017

	General	Other Nonmajor Governmental Funds	Total
<u>Assets</u>			
Cash and investments	\$ 537,753	\$ 0	\$ 537,753
Receivables - net:			
Accounts receivable	23,257	0	23,257
Due from other funds	0	34,664	34,664
Due from other governmental units	274,952	0	274,952
Prepaid expenditures	4,813	0	4,813
Total assets	\$ 840,775	\$ 34,664	\$ 875,439
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 115,453	\$ 0	\$ 115,453
Accrued payroll and other liabilities	88,337	31,459	119,796
Due to other funds	34,664	0	34,664
Unearned revenue	43,848	0	43,848
Total liabilities	282,302	31,459	313,761
<u>Fund Balance</u>			
Nonspendable - prepaid	4,813	0	4,813
Assigned for technology	15,000	0	15,000
Restricted for food service	0	3,205	3,205
Unassigned	538,660	0	538,660
Total fund balance	558,473	3,205	561,678
Total liabilities and fund balance	\$ 840,775	\$ 34,664	\$ 875,439

See accompanying notes to financial statements.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Reconciliation of Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
June 30, 2017

Total fund balance - governmental funds	\$ 561,678
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and are not reported in the funds</p>	
Cost of the capital assets	509,456
Accumulated depreciation	(35,964)
<p>Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:</p>	
Related to pensions	287,400
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Net pension liability	(1,820,701)
<p>Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:</p>	
Related to pensions	<u>(153,333)</u>
Total net position - governmental activities	<u>\$ (651,464)</u>

See accompanying notes to financial statements.



BAY-ARENAC COMMUNITY HIGH SCHOOL  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2017

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>			
Local sources	\$ 112,279	\$ 0	\$ 112,279
State sources	1,318,820	0	1,318,820
Federal sources	<u>168,028</u>	<u>76,495</u>	<u>244,523</u>
Total revenues	<u>1,599,127</u>	<u>76,495</u>	<u>1,675,622</u>
<u>Expenditures</u>			
Current:			
Instruction	484,584	0	484,584
Support services	1,036,390	0	1,036,390
Community services	500	0	500
Food services	<u>0</u>	<u>74,885</u>	<u>74,885</u>
Total expenditures	<u>1,521,474</u>	<u>74,885</u>	<u>1,596,359</u>
Excess (deficiency) of revenues over expenditures	77,653	1,610	79,263
<u>Other Financing Sources (Uses)</u>			
Payments to other governmental units	<u>(161,672)</u>	<u>0</u>	<u>(161,672)</u>
Net change in fund balance	(84,019)	1,610	(82,409)
Fund balance - beginning of year	<u>642,492</u>	<u>1,595</u>	<u>644,087</u>
Fund balance - end of year	<u>\$ 558,473</u>	<u>\$ 3,205</u>	<u>\$ 561,678</u>

See accompanying notes to financial statements.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2017**

Net change in fund balance - total governmental funds	\$ (82,409)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(14,976)
Capital outlay	166,393
<p>Some revenue and expenses reported in the statement of activities are not recognized as or require the use of current resources and, therefore are not reported in the governmental funds:</p>	
Pension related items	<u>5,354</u>
Change in net position of governmental activities	<u><u>\$ 74,362</u></u>

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Fiduciary Fund  
Statement of Fiduciary Net Position  
June 30, 2017

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ <u>1,540</u>
<u>Liabilities</u>	
Due from student groups	\$ <u>1,540</u>

See accompanying notes to financial statements.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Bay-Arenac Community High School (High School) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the High School:

**Reporting Entity**

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

**District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the High School's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes; (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items are not properly included among program revenues are reported as general revenue.

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

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**District-wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

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

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The High School reports the following major governmental fund:

**General Fund** - The General Fund is used to record the general operations of the High School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The High School does not have infrastructure-type assets.

Building and improvements are depreciated using the straight-line method over the following useful lives:

Building and improvements	5-50 years
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**Defined Benefit Plan** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement Systems (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The High School's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the High School for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the High School has an assigned fund balance of \$15,000 to be utilized for the replacement, repair and/or acquisition of computers and related technology supplies and/or materials. The High School's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the High School's policy to use restricted resources first, then unrestricted resources as they are needed.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows and Inflows of Resources**

**Deferred outflows** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. For district-wide financial statements, the High School reports deferred outflows of resources related to pensions. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The High School also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

**Deferred Inflows** - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For district-wide financial statements, the High School reports deferred inflows of resources related to pensions. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

**Use of Estimates** - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**State Aid** - For the fiscal year ended June 30, 2017, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to School Districts based on information supplied by the districts. For the year ended June 30, 2017, the foundation allowance was based on the average pupil membership counts taken in February of 2016 and September of 2016.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2016 - August 2017. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2017 relating to state aid is \$240,343.

The High School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.



**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2017

**NOTE 2 - BUDGETS (CONTINUED)**

Bay-Arenac Community High School follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The High School's Superintendent submits to the Board of Directors a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Directors throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Directors) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

**NOTE 3 - CASH AND INVESTMENTS**

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

At year-end, the High School's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 537,753	\$ 1,540	\$ 539,293

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 539,193
Petty cash and cash on hand	100
Total	\$ 539,293

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Interest Rate Risk

In accordance with its investment policy, the High School 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.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2017, the High School's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the High School's deposits may not be returned to it. As of June 30, 2017, \$330,729 of the High School's bank balance of \$580,729 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Fair Value Measurement

The High School is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the High School's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The High School does not have any investments subject to the fair value measurement.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2017

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Assets not being depreciated:				
Land	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Capital assets being depreciated:				
Building and improvements	293,063	166,393	0	459,456
Accumulated depreciation:				
Building and improvements	<u>20,988</u>	<u>14,976</u>	<u>0</u>	<u>35,964</u>
Net capital assets being depreciated	<u>272,075</u>	<u>151,417</u>	<u>0</u>	<u>423,492</u>
Net capital assets	<u>\$ 322,075</u>	<u>\$ 151,417</u>	<u>\$ 0</u>	<u>\$ 473,492</u>

Depreciation expense for fiscal year ended June 30, 2017 was \$14,976.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at June 30, 2017 are as follows:

	<u>Payables</u>
	<u>General</u>
Receivables   School Lunch	<u>\$ 34,664</u>

These interfund receivable and payable balances resulted from the time lag between the dates that; (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There were no interfund transfers during the year.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2017 consist of intergovernmental grants.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 240,343
Federal grants and other	34,609
	<u>\$ 274,952</u>

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2017

**NOTE 7 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$43,848.

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description**

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0.1607.7-206-36585-.00.html>.

**Benefits Provided**

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Reform 2010**

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (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. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

**Regular Retirement (no reduction factor for age)**

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of Final Average Compensation (FAC).

**Pension Plus**

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

**Member Contributions**

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

**Employer Contributions**

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). 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.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - September 30, 2017	15.27% - 19.03%

The High School's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$230,000, with \$169,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from the state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**Pension Liabilities**

At June 30, 2017, the High School reported a liability of \$1,820,701 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The High School's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the High School's proportion was 0.00730 and 0.00778 percent.

*MPERS (Plan) Net Pension Liability - As of September 30, 2016:*

Total Pension Liability	\$	67,917,445,000
Plan Fiduciary Net Position	\$	42,968,263,000
Net Pension Liability	\$	24,949,182,000
Proportionate share		0.00730 %
Net Pension liability for the School District	\$	1,820,701

*MPERS (Plan) Net Pension Liability - As of September 30, 2015:*

Total Pension Liability	\$	67,355,988,000
Plan Fiduciary Net Position	\$	42,382,361,000
Net Pension Liability	\$	24,973,627,000
Proportionate share		0.00778 %
Net Pension liability for the School District	\$	1,899,217

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

For the year ended June 30, 2017, the High School recognized pension expense of approximately \$151,000. These amounts include contributions funded from the state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. A portion of the Section 147c restricted funds, 72.88%, is considered part of the statutorily required contribution to the plan and 27.12% for OPEB. The amount of the section 147c revenue that relates to the statutorily required contribution was approximately \$55,000 and has been recorded as a deferred inflow of resources.

At June 30, 2017, the High School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Differences between expected and actual experience	\$ 22,691	\$ (4,315)
Net difference between projected and actual earnings on pension plan investments	30,260	0
Changes in Assumptions	28,465	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	67,740	(93,555)
Unearned revenue related to pension portion of section 147c	0	(55,463)
Reporting Unit contributions subsequent to the measurement date	<u>138,244</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 287,400</u></b>	<b><u>\$ (153,333)</u></b>

\$138,244, reported as deferred outflows of resources related to pensions resulting from High School employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.



BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	<b>Amount</b>
2018	\$ 12,618
2019	10,238
2020	35,975
2021	(7,545)
	\$ 51,286

**Actuarial Assumptions**

**Investment rate of return** - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

**Salary increases** - The rate of pay increase used for individual members is 3.5%.

**Inflation** - 2.5%

**Mortality assumptions** - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using a projection scale AA for men and women were used.

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with September 30, 2014 valuation.

**The long-term expected rate of return on pension plan investments** - The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses was determined using a 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.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

**Discount rate** - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 net pension liability to changes in the discount rate**

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.0 - 8.0 percent, as well as what the High School'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 than the current rate:

	<b>1% Decrease (6.0-7.0%)</b>	<b>Discount Rate (7.0-8.0%)</b>	<b>1% Increase (8.0-9.0%)</b>
Reporting Unit's proportionate share of the net pension liability	\$2,344,605	\$1,820,701	\$1,379,000

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

**Payable to the Pension Plan** - At year end the High School is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are included in the financial statements as a liability titled accrued payroll and payroll liabilities. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**Benefit Provisions - Other Postemployment**

***Introduction***

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

***Retiree Healthcare Reform of 2012***

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

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

***Employer Contributions***

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016, from 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2016, and from 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The High School postemployment healthcare contributions to MPSERS for the year ended June 30, 2017, 2016 and 2015 were approximately \$51,000, \$56,000 and \$67,000.

**NOTE 9 - GRANTS**

The High School receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the High School's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the High School administration believes such disallowance, if any, would be immaterial.

**NOTE 10 - ECONOMIC DEPENDENCY**

The High School received approximately 82% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the High School, the High School is considered to be economically dependent.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - LEASE**

The High School has entered into an agreement to lease the printers and copiers. Minimum future lease payments under noncancelable leases after June 30, 2017 are as follows:

2018	\$	16,507
2019		16,507
2020		13,756
Total		46,770

**NOTE 12 - CONTRACTUAL COMMITMENTS**

The High School has entered into an agreement with Bay-Arenac ISD to perform management services that include payroll, additional curricular and administrative services. The amount paid to Bay-Arenac ISD for these services during the year ended June 30, 2017 was \$161,672.

**NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued by the GASB in June 2015 and will be effective for the High School's 2018 fiscal year. The Statement requires governments that participate in other postemployment benefit plans (OPEB) to report in their statement of net position an OPEB liability. The OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense. The High School is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement could be significant.

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by GASB in January 2017 and will be effective for the High School's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on; (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. School Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
 Required Supplemental Information  
 Budgetary Comparison Schedule - General Fund  
 For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Local sources	\$ 124,200	\$ 91,500	\$ 112,279	\$ 20,779
State sources	1,202,248	1,232,682	1,318,820	86,138
Federal sources	95,185	178,951	168,028	(10,923)
Total revenues	<u>1,421,633</u>	<u>1,503,133</u>	<u>1,599,127</u>	<u>95,994</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	374,704	445,545	448,642	(3,097)
Added needs	61,265	14,262	35,942	(21,680)
Support services:				
Pupil	202,506	238,691	230,289	8,402
Instructional staff	124,745	114,704	111,228	3,476
General administrative	342,900	351,651	320,889	30,762
Business services	4,000	6,000	5,460	540
Operations and maintenance	187,734	361,683	359,177	2,506
Transportation	20,000	15,000	9,347	5,653
Other	500	500	0	500
Community services	1,000	550	500	50
Total expenditures	<u>1,319,354</u>	<u>1,548,586</u>	<u>1,521,474</u>	<u>27,112</u>
Excess (deficiency) of revenues over expenditures	102,279	(45,453)	77,653	123,106
<u>Other Financing Sources (Uses)</u>				
Payments to other governmental units	<u>(135,000)</u>	<u>(169,608)</u>	<u>(161,672)</u>	<u>7,936</u>
Net change in fund balance	(32,721)	(215,061)	(84,019)	131,042
Fund balance - beginning of year	<u>642,492</u>	<u>642,492</u>	<u>642,492</u>	<u>0</u>
Fund balance - end of year	<u>\$ 609,771</u>	<u>\$ 427,431</u>	<u>\$ 558,473</u>	<u>\$ 131,042</u>

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)**

	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
Reporting unit's proportion of net pension liability (%)	0.00730 %	0.00780 %	0.00731 %
Reporting unit's proportionate share of net pension liability	\$ 1,820,701	\$ 1,899,217	\$ 1,611,199
Reporting unit's covered-employee payroll	\$ 608,220	\$ 649,801	\$ 635,976
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	33.40581 %	34.21415 %	39.47222 %
Plan fiduciary net position as a percentage of total pension liability	63.27000 %	62.92000 %	66.15000 %

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**BAY-ARENAC COMMUNITY HIGH SCHOOL**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 168,825	\$ 167,562	\$ 151,968
Contributions in relation to statutorily required contributions*	<u>168,825</u>	<u>167,562</u>	<u>151,968</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll	\$ 637,799	\$ 607,726	\$ 635,976
Contributions as a percentage of covered-employee payroll	26.47 %	27.57 %	23.90 %

\*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.



BAY-ARENAC COMMUNITY HIGH SCHOOL  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2017

**Changes of benefit terms:** There were no changes of benefit terms in 2017.

**Changes of assumptions:** Assumption changes are a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

BAY-ARENAC COMMUNITY HIGH SCHOOL  
 Other Supplemental Information  
 Balance Sheet  
 Nonmajor Governmental Fund  
June 30, 2017

	<u>Assets</u>	<u>Special Revenue Fund Food Service</u>
Receivables - net:		
Due from other funds		\$ 34,664
Total assets		<u>\$ 34,664</u>
	<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>		
Accounts payable		\$ 31,459
Total liabilities		<u>31,459</u>
<u>Fund Balance</u>		
Restricted for food service		<u>3,205</u>
Total fund balance		<u>3,205</u>
Total liabilities and fund balance		<u>\$ 34,664</u>

BAY-ARENAC COMMUNITY HIGH SCHOOL  
 Other Supplemental Information  
 Statement of Revenues, Expenditures  
 and Changes in Fund Balance - Nonmajor Governmental Fund  
For the Year Ended June 30, 2017

	<u>Special Revenue Fund Food Service</u>
<u>Revenues</u>	
Federal	\$ 76,495
Total revenues	<u>76,495</u>
<u>Expenditures</u>	
Current:	
Food services	<u>74,885</u>
Total expenditures	<u>74,885</u>
Net change in fund balance	1,610
Fund balance - beginning of year	<u>1,595</u>
Fund balance - end of year	<u><u>\$ 3,205</u></u>



INDEPENDENT AUDITOR'S 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

October 10, 2017

Board of Directors  
Bay-Arenac Community High School  
Essexville, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Bay-Arenac Community High School (High School), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Bay-Arenac Community High School's basic financial statements and have issued our report thereon dated October 10, 2017.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bay-Arenac Community High School'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 Bay-Arenac Community High School's internal control. Accordingly, we do not express an opinion on the effectiveness of Bay-Arenac Community High School's internal control.

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

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



Board of Directors  
Bay-Arenac Community High School  
October 10, 2017

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Bay-Arenac Community High School'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*.

**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 High School'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 High School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weinlander Fitzhugh*