

Benzie County Central School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Benzie County Central Schools (BCCS) annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. It is to read it in conjunction with the transmittal letter and the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status continued to remain somewhat stable compared to previous years. The State did not make reductions to the foundation grant or categoricals mid-year as expected. The foundation grant did increase and included an extra amount per pupil as an equity payment. The State also provided an additional per pupil amount for Middle School Math. On the downside, enrollment decreased compared to the previous school year thus offsetting any potential gain in revenue.
- Foundation grant increased to \$7,085/pupil. This is a \$210/pupil, or 3% increase compared to last year's \$6,875/pupil grant. The Equity Payment was \$23/pupil and the Middle School Math payment was \$54/pupil.
- Enrollment (blended) pupil count decreased 36.57 students, or 1.8%, compared to 05/06. This represented a potential loss of \$260,000 based on the increased \$7,085/pupil foundation grant and new equity payment of \$23/pupil.

$$05/06 = \$2,055.30 - 06/07 = \$2,018.73.$$

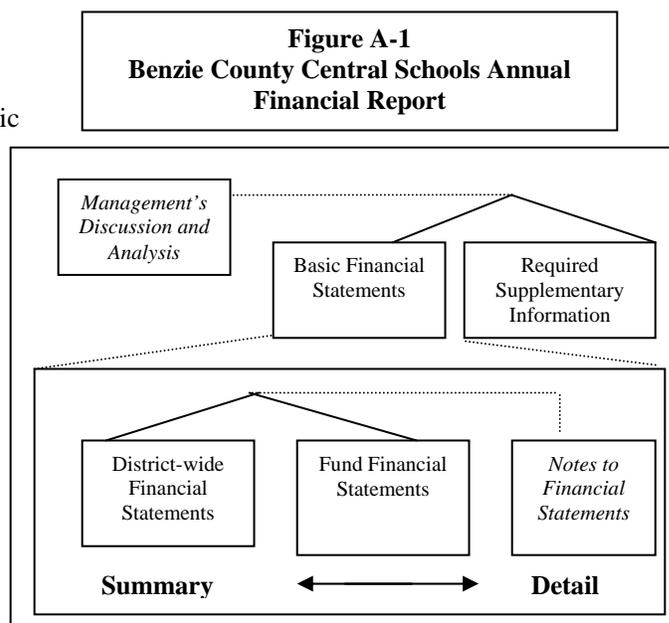
- The District's contribution rate for employee retirement increased by 1.4%, from 16.34% in 2005/06 to 17.74%.
- Health insurance costs increased by an average of 9% in 2006/07 in all classifications compared to insurance rates in 2005/06. The non-union employees changed to Health Savings Account (HSA)/high deductible Insurance Plan from a BS/BC PPO Plan mid-year in order to contain costs in the 07/08 school year.
- Although Energy costs continued to increase, the District entered a natural gas cooperative with the Michigan Schools Energy Cooperative (MISEC) and was able to lock in lower natural gas prices for the year. The natural gas expense decreased 16% from 05/06, from \$220,473/year in 05/06 to \$188,432 in 06/07. The District also saw cost improvement in the diesel fuel expense also. Transportation fuels decreased 3.4% from \$246,501/year in 05/06 to \$237,947/year in 06/07. Diesel fuel prices did increase during the year, but the increase was not as steep as the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.



- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 on the previous page shows how the various parts of this annual report are arranged and related to one another.

Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the District’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – The District’s *combined* net assets were higher on June 30, 2007, than they were the year before – increasing by \$137,346 to \$2,130,781.

Table A-3
BCCS's Net Assets

	2006	2007
Current and other assets	\$ 3,522,922	\$ 3,872,409
Capital assets	<u>10,687,078</u>	<u>10,184,781</u>
Total assets	<u>14,210,000</u>	<u>14,057,190</u>
Long-term debt outstanding	10,157,164	9,658,745
Other liabilities	<u>2,059,401</u>	<u>2,267,664</u>
Total liabilities	<u>12,216,565</u>	<u>11,926,409</u>
Net assets		
Invested in capital assets, net of related debt	282,195	236,612
Restricted	281,905	224,915
Unrestricted	<u>1,429,335</u>	<u>1,669,254</u>
Total net assets	<u>\$ 1,993,435</u>	<u>\$ 2,130,781</u>

Changes in BCCS's Net Assets

Revenues	2006	2007
Property Taxes		
Levied for general purposes	\$ 5,369,277	\$ 5,977,222
Levied for debt service	894,100	897,931
State school aid - unrestricted	8,329,538	7,976,467
Grants and contributions not restricted for a specific program	293,073	231,551
Charges for services	333,207	310,346
Operating grants and contributions	2,365,289	2,607,950
Capital grants and contributions	101,269	23,475
Investment and other	<u>60,618</u>	<u>100,719</u>
Total revenues	<u>17,746,371</u>	<u>18,125,661</u>
Expenses		
Instruction	10,066,175	10,159,811
Support services	5,910,211	5,807,403
Community services	57,686	28,567
Food services	807,336	778,858
Athletics	261,548	211,004
Other	11,153	9,810
Debt Service		
Interest	430,803	451,351
Depreciation	<u>462,535</u>	<u>541,511</u>
Total expenses	18,007,447	17,988,315
Increase (decrease) in net assets	<u>\$ (261,076)</u>	<u>\$ 137,346</u>

District Governmental Activities

In order to provide financial stability, the District continued sound financial planning and personnel management for the 2006/07 School Year.

- Teacher retiring or resigning the District, are replaced only if enrollments dictate the need for increased instruction.
- Teachers who retired or resigned, were replaced by those at entry level or lower pay scales than the incumbents in 2005/06.
- Grant funded programs are totally dependent upon dollars received. If dollars coming in from the grant decrease, expenses are decreased accordingly.
- The District continues to assess enrollment and has established a baseline classroom size of not less than 15 students.
- A Voluntary Retirement Incentive was offered in addition to an Early Retirement Incentive.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a fund balance of \$1,891,545, or \$186,467 more than last year's ending fund balances of \$1,705,078.

General Fund Budgetary Highlights

Over the course of the year, the District revises the annual operating budget quarterly. The District begins the school after Labor Day, before the State's fiscal year begins in October. Therefore, budget assumptions made by the District earlier in the year may not materialize when the State implements the education budget.

Changes are made to final student enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2006/07 school year totaled \$17,793,904, \$39,214 more than 05/06. Still, due to dwindling resources, the District was unable to invest as much in new buses and new equipment as in previous years. The increased investment of only \$39,214 from 2006 to 2007 is good; however, is quite a bit less than the increase from 2005 to 2006 that totaled \$116,256.

	<u>2006</u>	<u>2007</u>
Buildings and improvements	\$ 15,173,102	\$ 15,212,316
Furniture and equipment	921,001	921,001
Buses and vehicles	<u>1,660,587</u>	<u>1,660,587</u>
Total	<u><u>\$ 17,754,690</u></u>	<u><u>\$ 17,793,904</u></u>
Increase		<u><u>\$ 39,214</u></u>

Long-term Debt

At year-end, the District had \$10,206,217 in general obligation bonds and \$222,290 in accumulated leave liability. (More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.)

	2006	2007
General obligation debts (financed with property taxes)	\$ 10,681,217	\$ 10,206,217
Unaccreted Premium	80,459	70,943
Unamortized refinancing cost	(356,793)	(328,991)
Accumulated Sick and Vacation Leave	220,896	222,290
Total	<u>\$ 10,625,779</u>	<u>\$ 10,170,459</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- The 2007-2008 foundation allowance is unknown at this time. We are not projecting an increase.
- The *preliminary blended* student count for the 2007/08 school year reflects a decrease of 80 students from the 2005/06 blended count of 2,018.73. The official count will not occur until after this audit is published.
- Health insurance costs continue to rise in spite of the insurance conversion to a high deductible health insurance and Health Saving Account (HSA) plan for non-union employees and MESSA Choices II for teachers and support staff.
- The District's retirement contribution rate increased to 17.74% compared to the 05/06 contribution rate of 16.34%. The 2007/08 rate has been announced at 16.72%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Central Business Office, Benzie County Central Schools, 9222 Homestead Rd, Benzonia MI 49616.



Business and Financial Advisors
Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Benzie County Central School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Benzie County Central School District** (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Benzie County Central School District as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2007, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages i - vi and the budgetary comparison information on page 23, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

October 2, 2007

Benzie County Central School District

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,131,998
Intergovernmental receivable	1,662,554
Inventory	<u>77,857</u>
Total current assets	3,872,409
Capital assets, net of accumulated depreciation	<u>10,184,781</u>
Total assets	<u><u>\$ 14,057,190</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 125,458
State aid anticipation note payable	338,416
Salaries payable and related expenses	1,193,714
Accrued expenses	98,362
Current portion of long-term liabilities	<u>511,714</u>
Total current liabilities	2,267,664
Non-current portion of long-term obligations	<u>9,658,745</u>
Total liabilities	<u>11,926,409</u>
NET ASSETS	
Invested in capital assets, net of related debt	236,612
Restricted for	
Debt Service	219,938
School-based activities	4,977
Unrestricted	<u>1,669,254</u>
Total net assets	<u>2,130,781</u>
Total liabilities and net assets	<u><u>\$ 14,057,190</u></u>

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

Benzie County Central School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 10,159,811	\$ -	\$ 2,166,217	\$ -	\$ (7,993,594)
Supporting Services	5,807,403	-	-	-	(5,807,403)
Community Services	28,567	-	-	-	(28,567)
Food Service	778,858	247,492	441,733	-	(89,633)
Athletic	211,004	62,854	-	-	(148,150)
Other	9,810	-	-	23,475	13,665
Interest on long-term debt	451,351	-	-	-	(451,351)
Depreciation-unallocated	541,511	-	-	-	(541,511)
Total governmental activities	\$ 17,988,315	\$ 310,346	\$ 2,607,950	\$ 23,475	(15,046,544)
General purpose revenues					
Property taxes					
Levied for general purposes					5,977,222
Levied for debt service					897,931
State school aid - unrestricted					7,976,467
Grants and contributions not restricted to specific program					231,551
Investment and other					100,719
Total general purpose revenue					15,183,890
Change in net assets					137,346
Net assets, beginning of year					1,993,435
Net assets, end of year					\$ 2,130,781

-5- The accompanying notes are an integral part of these financial statements.

Benzie County Central School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,752,327	\$ 379,672	\$ 2,131,999
Intergovernmental receivable	1,647,327	15,227	1,662,554
Due from other funds	87,879	6,254	94,133
Inventory	64,583	13,274	77,857
Total assets	\$ 3,552,116	\$ 414,427	\$ 3,966,543
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 1,315,901	\$ 32,094	\$ 1,347,995
Due to other funds	6,254	87,879	94,133
State aid anticipation note payable	338,416	-	338,416
Total liabilities	1,660,571	119,973	1,780,544
FUND BALANCES			
Reserved for debt retirement	-	289,478	289,478
Reserved for inventory	64,583	-	64,583
Reserved for Food Service	-	4,976	4,976
Designated for instructional activities	51,243	-	51,243
Unreserved and undesignated			
Reported in General Fund	1,775,719	-	1,775,719
Total fund balances	1,891,545	294,454	2,185,999
Total liabilities and fund balances	\$ 3,552,116	\$ 414,427	

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

Amounts reported for governmental activities in the statement of net assets 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 \$17,847,345 and the accumulated depreciation is \$(7,662,564).

10,184,781

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	\$ 10,206,217	
Accrued interest on bonds	69,540	
Unamortized bond premium	70,943	
Unamortized refinancing costs	(328,991)	
Accumulated leave liability	222,290	(10,239,999)

Total net assets - governmental activities

\$ 2,130,781

Benzie County Central School District

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

Year Ended June 30, 2007

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 5,977,222	\$ 897,931	\$ 6,875,153
Interest	89,864	10,855	100,719
State revenues	8,958,483	53,665	9,012,148
Federal revenues	498,059	388,068	886,127
Other	<u>941,168</u>	<u>310,346</u>	<u>1,251,514</u>
Total revenues	<u>16,464,796</u>	<u>1,660,865</u>	<u>18,125,661</u>
Expenditures			
Instruction	10,153,257	-	10,153,257
Supporting Services	5,775,066	-	5,775,066
Community Services	28,567	-	28,567
Food Service	-	778,858	778,858
Athletic	-	211,004	211,004
Other	8,985	-	8,985
Debt Service			
Principal	-	475,000	475,000
Interest	-	437,605	437,605
Other	-	825	825
Capital outlay	<u>57,885</u>	<u>18,826</u>	<u>76,711</u>
Total expenditures	<u>16,023,760</u>	<u>1,922,118</u>	<u>17,945,878</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>441,036</u>	<u>(261,253)</u>	<u>179,783</u>
Other financing sources (uses)			
Operating transfers in	-	254,569	254,569
Operating transfers out	<u>(254,569)</u>	<u>-</u>	<u>(254,569)</u>
Total other financing sources (uses)	<u>(254,569)</u>	<u>254,569</u>	<u>-</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	186,467	(6,684)	179,783
Fund balance, beginning of year	<u>1,705,078</u>	<u>301,138</u>	<u>2,006,216</u>
Fund balance, end of year	<u><u>\$ 1,891,545</u></u>	<u><u>\$ 294,454</u></u>	<u><u>\$ 2,185,999</u></u>

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

Benzie County Central School District

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

Year Ended June 30, 2007

Total Net Change in Fund Balances - Governmental Funds \$ 179,783

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, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

	Capital outlays	\$ 39,214	
	Depreciation expense	<u>(541,511)</u>	(502,297)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) - 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, sick time earned was greater than the amounts paid by \$1,394. (1,394)

Repayment of bond principal is an expenditure or other financing use in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 475,000

Net amortization of bond premium, issuance costs and difference between the reacquisition price and net carrying amount of defeased debt. (18,286)

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 interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable. 4,540

Changes in Net Assets of Governmental Activities \$ 137,346

Benzie County Central School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>46,542</u>
LIABILITIES	
Due to student groups	\$ <u>46,542</u>

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

Benzie County Central School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Benzie County Central School District (the "School District") is a Michigan public school district consisting of four elementary schools, a middle school and a high school. The School District primarily serves the Benzonia, Lake Ann, Honor and Crystal Lake communities. As of June 30, 2007, the School District employs 106 professional staff and 116 non-professional staff and has 1,936 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 the 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, 2007.

The Financial Reporting Entity

Benzie County Central School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

NOTES TO FINANCIAL STATEMENTS - Continued

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 government-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 and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource 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. 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. 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.

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

NOTES TO FINANCIAL STATEMENTS - Continued

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 required to be accounted for in another fund.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The Special Revenue Funds maintained by the School District are the Athletic Fund and Food Service Fund.

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

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Equivalents

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

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 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Buildings	50 years
Improvements, other than buildings	20 years
Buses and vehicles	10 years
Furniture and equipment	5 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

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 Program, which are reported as operating grants and contributions.

Spending Policy

The School District's policy is to apply restricted revenues first when an expense is incurred for purposes when both restricted and unrestricted net assets are available.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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

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, 2007, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$10,196,872	\$10,197,631	\$ (759)
Community Services	26,270	28,567	(2,297)
Other	8,508	8,985	(477)

NOTE C - CASH AND INVESTMENTS

At June 30, 2007, the School District's cash and investments include the following:

	<u>Cash and Equivalents</u>
Cash on hand	\$ 104
Bank deposits	<u>2,178,436</u>
	<u>\$ 2,178,540</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

As of June 30, 2007, \$2,267,275 of the School District's bank balance of \$2,581,171 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and 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 county 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 revenue. In the government-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 per \$1,000 of equalized non-homestead property value of \$332 million was levied for general operating purposes. For debt service purposes, \$1.40 per \$1,000 of equalized homestead and non-homestead property value of \$637 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Deferred Revenue

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 revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2007 are as follows:

Due from the State of Michigan	
State Aid	\$ 1,438,479
Other receivables	<u>224,075</u>
	<u>\$ 1,662,554</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Buildings and improvements	\$ 15,173,102	\$ 39,214	\$ -	\$ 15,212,316
Furniture and equipment	921,001	-	-	921,001
Buses and vehicles	<u>1,660,587</u>	<u>-</u>	<u>-</u>	<u>1,660,587</u>
Total depreciable assets	17,754,690	39,214	-	17,793,904
Less accumulated depreciation	(7,121,053)	(541,511)	-	(7,662,564)
Land	<u>53,441</u>	<u>-</u>	<u>-</u>	<u>53,441</u>
Total capital assets, net	<u>\$ 10,687,078</u>	<u>\$ (502,297)</u>	<u>\$ -</u>	<u>\$ 10,184,781</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ (541,511)</u>
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NOTE F - STATE AID ANTICIPATION NOTE PAYABLE

The State aid anticipation note bears interest at 3.68% and is due July 20, 2007.

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2007 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Defeasance</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$10,681,217	\$ -	\$ (475,000)	\$10,206,217	\$ 530,000
Unaccreted premium	80,459	-	(9,516)	70,943	9,516
Unamortized refinancing costs	(356,793)	-	27,802	(328,991)	(27,802)
Accumulated leave liability	<u>220,896</u>	<u>1,394</u>	<u>-</u>	<u>222,290</u>	<u>-</u>
Long-term debt at June 30, 2007	<u>\$10,625,779</u>	<u>\$ 1,394</u>	<u>\$ (456,714)</u>	<u>\$10,170,459</u>	<u>\$ 511,714</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2007, the School District's long-term debt consisted of the following:

\$1,295,000 1999 School District refunding general obligation bonds for the advance refunding of the School District's 1992 bond issue; due in annual installments of \$165,000 to \$190,000 through May 1, 2011; interest rate of 3.25% to 4.5%.	\$ 760,000
\$1,820,000 1999 Building and Site Bonds for erecting, furnishing, equipping and remodeling of Betsie Valley Elementary School and the Junior/Senior High School complex; due in annual installments of \$185,000 to \$390,000 through May 1, 2011; interest rate of 4.5% to 5%.	1,200,000
\$8,260,000 2005 School District refunding general obligation bonds for the advance refunding of the School District's 1999 bond issue; due in annual installments of \$55,000 to \$1,145,000 through May 1, 2019; interest rate of 3.0% to 4.15%.	8,150,000
1998 School Improvement Bond (Durant); due in installments of \$16,484 to \$49,453 through May 15, 2013; average interest rate of 4.76%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	<u>96,217</u>
Total general obligation bonds payable	10,206,217
Unamortized refinancing costs	(328,991)
Unaccreted premium	70,943
Accumulated leave liability	<u>222,290</u>
Total long-term debt	<u><u>\$10,170,459</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2007 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 530,000	\$ 417,238
2009	622,437	406,015
2010	658,686	370,783
2011	719,338	341,003
2012	770,020	310,604
2013-2017	4,660,736	1,047,449
2018-2022	<u>2,245,000</u>	<u>140,136</u>
	<u>\$ 10,206,217</u>	<u>\$ 3,033,228</u>

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 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

Prior Year Defeasance of Debt - General Obligation Bonds

On February 23, 1999, the School District issued \$1.79 million in obligation bonds with an average interest rate of 4.3% to advance refund \$1.65 million of outstanding 1992 general obligation bonds with an average interest rate of 6.5%. The net proceeds of \$1,737,738 (after payment of \$52,262 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 1992 general obligation bonds. The outstanding principal of the defeased bonds is \$1.2 million at June 30, 2007.

Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$23,475 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$234,754, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999, using revenues provided by the State specifically for this purpose.

As part of the Executive Budget Recommendation for fiscal year 2004, the State refunded the bonds. The refunding changes the payment schedule without changing the total payments. There will be no debt service payments for fiscal years 2004 and 2005. Payments resumed in 2006 in the amount of \$77,794. In the fiscal year 2007 there was no debt payment.

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 Benzie County Central School District. At June 30, 2007, there were no significant unbilled claims.

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

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in 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.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 87,879	\$ 6,254
Food Service Fund	6,254	55,089
Athletic Fund	<u>-</u>	<u>32,790</u>
	<u>\$ 94,133</u>	<u>\$ 94,133</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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 government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Athletic Fund	\$ 166,478	General Fund	<u>\$ 254,569</u>
Food Service Fund	<u>88,091</u>		
	<u>\$ 254,569</u>		<u>\$ 254,569</u>

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget ("DMB"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 4.5% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and Benzie County Central School District is required to contribute at an actuarially determined rate. The rate was 16.34% for the period July 1, 2006 to September 30, 2006 and 17.74% for the period October 1, 2006 to June 30, 2007 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$1,565,260, \$1,476,630 and \$1,283,827, respectively, which is equal to the required contribution for each year.

NOTE K - COMMITMENTS AND CONTINGENCIES

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.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Benzie County Central School District Education Association. The Board of Education and the Benzie County Central School District Education Association have a contract for the years ending June 30, 2005 through June 30, 2007.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for August 1, 2003 through August 1, 2008.

The Food Service personnel at the School District are organized under the Bakery, Confectionery Tobacco Workers & Grain Millers, Local 81 ("BCTGM-Local 81"). The Board of Education and the BCTGM-Local 81 have a contract for August 1, 2003 through August 1, 2008.

NOTE L - SUBSEQUENT EVENTS

The School District borrowed \$2.6 million subsequent to June 30, 2007. The note, plus interest, will be due July, 2008 and is secured by fiscal year 2007 - 2008 State aid.

In July 2007, the School District entered into a Voluntary Separation Program (VSP) with five teachers. The VSP calls for \$25,000 to be paid to each teacher. Payments will be made in two installments of \$12,500, will be paid in July 2007 and 2008, and will be deposited into a 403(b) account.

REQUIRED SUPPLEMENTARY INFORMATION

Benzie County Central School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
	Revenues				
Local and intermediate sources	\$ 6,076,869	\$ 6,271,116	\$ 6,067,086	\$ 194,247	\$ (204,030)
State revenues	8,978,721	8,958,485	8,958,483	(20,236)	(2)
Federal revenues	563,500	497,008	498,059	(66,492)	1,051
Other	<u>361,354</u>	<u>732,639</u>	<u>941,168</u>	<u>371,285</u>	<u>208,529</u>
Total revenues	<u>15,980,444</u>	<u>16,459,248</u>	<u>16,464,796</u>	<u>478,804</u>	<u>5,548</u>
Expenditures					
Instruction	10,104,035	10,196,872	10,197,631	(92,837)	(759)
Supporting Services	5,846,725	5,796,455	5,788,577	50,270	7,878
Community Services	14,000	26,270	28,567	(12,270)	(2,297)
Other	<u>5,221</u>	<u>8,508</u>	<u>8,985</u>	<u>(3,287)</u>	<u>(477)</u>
Total expenditures	<u>15,969,981</u>	<u>16,028,105</u>	<u>16,023,760</u>	<u>(58,124)</u>	<u>4,345</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>10,463</u>	<u>431,143</u>	<u>441,036</u>	<u>420,680</u>	<u>9,893</u>
Other financing sources (uses)					
Operating transfers out	<u>(353,850)</u>	<u>(254,570)</u>	<u>(254,569)</u>	<u>99,280</u>	<u>1</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(343,387)	176,573	186,467	519,960	9,894
Fund balance, beginning of year	<u>1,705,078</u>	<u>1,705,078</u>	<u>1,705,078</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,361,691</u>	<u>\$ 1,881,651</u>	<u>\$ 1,891,545</u>	<u>\$ 519,960</u>	<u>\$ 9,894</u>

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

Benzie County Central School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Special Revenue Funds		Debt Service Funds			Total Non-Major Governmental
	Food Service	Athletic	1999 Refunding Bond Issue	2005 Refunding Bond	1999 Building and Site Bond	
ASSETS						
Cash and cash equivalents	\$ 63,272	\$ 36,061	\$ 33,616	\$ 191,560	\$ 55,163	\$ 379,672
Intergovernmental receivable	6,088	-	2,284	3,917	2,938	15,227
Due from other funds	6,254	-	-	-	-	6,254
Inventory	13,274	-	-	-	-	13,274
	<u>88,888</u>	<u>36,061</u>	<u>35,900</u>	<u>195,477</u>	<u>58,101</u>	<u>414,427</u>
Total assets	<u>\$ 88,888</u>	<u>\$ 36,061</u>	<u>\$ 35,900</u>	<u>\$ 195,477</u>	<u>\$ 58,101</u>	<u>\$ 414,427</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued expenses	\$ 28,823	\$ 3,271	\$ -	\$ -	\$ -	\$ 32,094
Due to other funds	55,089	32,790	-	-	-	87,879
	<u>83,912</u>	<u>36,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,973</u>
Total liabilities	<u>83,912</u>	<u>36,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,973</u>
FUND BALANCES						
Reserved for debt retirement	-	-	35,900	195,477	58,101	289,478
Reserved for Food Service	4,976	-	-	-	-	4,976
	<u>4,976</u>	<u>-</u>	<u>35,900</u>	<u>195,477</u>	<u>58,101</u>	<u>294,454</u>
Total fund balances	<u>4,976</u>	<u>-</u>	<u>35,900</u>	<u>195,477</u>	<u>58,101</u>	<u>294,454</u>
Total liabilities and fund balances	<u>\$ 88,888</u>	<u>\$ 36,061</u>	<u>\$ 35,900</u>	<u>\$ 195,477</u>	<u>\$ 58,101</u>	<u>\$ 414,427</u>

Benzie County Central School District

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

Year Ended June 30, 2007

	Special Revenue Funds		Debt Service Funds			Total Non-Major Governmental
	Food Service	Athletic	1999 Refunding Bond Issue	2005 Refunding Bond	1999 Building and Site Bond	
Revenues						
Property taxes	\$ -	\$ -	\$ 224,483	\$ 384,828	\$ 288,620	\$ 897,931
Interest	1,679	361	1,695	4,693	2,427	10,855
State revenues	53,665	-	-	-	-	53,665
Federal revenues	388,068	-	-	-	-	388,068
Other	247,492	62,854	-	-	-	310,346
	<u>690,904</u>	<u>63,215</u>	<u>226,178</u>	<u>389,521</u>	<u>291,047</u>	<u>1,660,865</u>
Total revenues						
Expenditures						
Food Service	778,858	-	-	-	-	778,858
Athletic	-	211,004	-	-	-	211,004
Debt Service						
Principal	-	-	190,000	55,000	230,000	475,000
Interest	-	-	40,945	329,565	67,095	437,605
Other	-	-	300	225	300	825
Capital outlay	137	18,689	-	-	-	18,826
	<u>778,995</u>	<u>229,693</u>	<u>231,245</u>	<u>384,790</u>	<u>297,395</u>	<u>1,922,118</u>
Total expenditures						
REVENUES OVER (UNDER) EXPENDITURES	(88,091)	(166,478)	(5,067)	4,731	(6,348)	(261,253)
Other financing sources (uses)						
Operating transfers in	88,091	166,478	-	-	-	254,569
	<u>88,091</u>	<u>166,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,569</u>
Total other financing sources (uses)						
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	-	(5,067)	4,731	(6,348)	(6,684)
Fund balance, beginning of year	4,976	-	40,967	190,746	64,449	301,138
Fund balance, end of year	<u>\$ 4,976</u>	<u>\$ -</u>	<u>\$ 35,900</u>	<u>\$ 195,477</u>	<u>\$ 58,101</u>	<u>\$ 294,454</u>

FEDERAL PROGRAMS

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
U. S. Department of Education							
Passed through Michigan Department of Education							
Title I Grants - Educationally Deprived	84.010						
071530-0607		\$ 368,835	\$ -	\$ -	\$ 349,810	\$ 349,810	\$ -
061530-0607		3,034	-	-	3,034	3,034	-
061530-0506		<u>404,946</u>	<u>188,314</u>	<u>401,913</u>	<u>188,314</u>	<u>-</u>	<u>-</u>
Total Title I Grants - Educationally Deprived		<u>776,815</u>	<u>188,314</u>	<u>401,913</u>	<u>541,158</u>	<u>352,844</u>	<u>-</u>
Title V - Innovation Educational Program Strategies	84.298						
070250-0607		<u>5,639</u>	<u>-</u>	<u>-</u>	<u>5,639</u>	<u>5,639</u>	<u>-</u>
Handicapped Preschool and School Program	84.027						
		<u>1,873</u>	<u>-</u>	<u>-</u>	<u>1,873</u>	<u>1,873</u>	<u>-</u>
Title IIA - Improving Teacher Quality	84.367						
070520-0607		107,312	-	-	105,975	105,975	-
060520-0506		<u>108,679</u>	<u>36,571</u>	<u>108,679</u>	<u>36,571</u>	<u>-</u>	<u>-</u>
Total Improving Teacher Quality		<u>215,991</u>	<u>36,571</u>	<u>108,679</u>	<u>142,546</u>	<u>105,975</u>	<u>-</u>
Safe and Drug-Free Schools and Communities	84.186						
072860-0607		<u>9,808</u>	<u>-</u>	<u>-</u>	<u>9,808</u>	<u>9,808</u>	<u>-</u>
Technology Literacy Challenge Grants	84.318						
074290-0607		<u>3,786</u>	<u>-</u>	<u>-</u>	<u>3,786</u>	<u>3,786</u>	<u>-</u>
Total passed through Michigan Department of Education		<u>1,013,912</u>	<u>224,885</u>	<u>510,592</u>	<u>704,810</u>	<u>479,925</u>	<u>-</u>
Passed through Traverse Bay Area ISD							
Preschool	84.027A						
070450-0607		1,050	-	-	1,050	1,050	-
070460-0607		<u>16,147</u>	<u>-</u>	<u>-</u>	<u>16,147</u>	<u>16,147</u>	<u>-</u>
Total Goals 2001		<u>17,197</u>	<u>-</u>	<u>-</u>	<u>17,197</u>	<u>17,197</u>	<u>-</u>
Total passed through Traverse Bay Area ISD		<u>17,197</u>	<u>-</u>	<u>-</u>	<u>17,197</u>	<u>17,197</u>	<u>-</u>
Total U.S. Department of Education		<u>1,031,109</u>	<u>224,885</u>	<u>510,592</u>	<u>722,007</u>	<u>497,122</u>	<u>-</u>

-27- The accompanying notes are an integral part of this schedule.

Benzie County Central School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
U. S. Department of Agriculture							
Nutrition Cluster							
Passed through Michigan Department of Education							
National School Lunch Program							
1950-All Lunches	10.555	\$ -	\$ -	\$ 37,263	\$ 38,604	\$ 38,604	\$ -
1960-Free and Reduced	10.555	-	-	205,752	217,990	217,990	-
1970-Breakfast	10.553	-	-	69,924	69,810	69,810	-
Total Nutrition Cluster		<u>-</u>	<u>-</u>	<u>312,939</u>	<u>326,404</u>	<u>326,404</u>	<u>-</u>
USDA Commodities							
0506 Correction to prior year schedule	10.550	-	-	(11,340)	-	-	-
Bonus	10.550	-	-	3,968	336	336	-
Entitlement	10.550	-	-	32,005	61,328	61,328	-
Total passed through Michigan Department of Education		<u>-</u>	<u>-</u>	<u>24,633</u>	<u>61,664</u>	<u>61,664</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>-</u>	<u>-</u>	<u>337,572</u>	<u>388,068</u>	<u>388,068</u>	<u>-</u>
U. S. Department of Health and Human Services							
Passed through Traverse Bay Area ISD							
Medicaid - School Based Services	93.778	-	-	-	937	937	-
Total U.S. Department of Health and Human Services		<u>-</u>	<u>-</u>	<u>-</u>	<u>937</u>	<u>937</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 1,031,109</u>	<u>\$ 224,885</u>	<u>\$ 848,164</u>	<u>\$ 1,111,012</u>	<u>\$ 886,127</u>	<u>\$ -</u>

Benzie County Central School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using 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, 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** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	\$ <u>886,127</u>
Federal sources per financial statements	\$ <u>886,127</u>



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

Board of Education
Benzie County Central School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Benzie County Central School District* (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 2, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control. We believe Finding 2007-1 and Finding 2007-2 constitute material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of 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*.

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 2, 2007



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Benzie County Central School District

Compliance

We have audited the compliance of *Benzie County Central School District* (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 2007. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, Benzie County Central School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

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Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 2, 2007

Benzie County Central School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

PRIOR YEAR

No findings.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the general purpose financial statements of Benzie County Central School District.
2. There were two significant deficiencies, which are considered material weaknesses, in internal control 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. The auditor's report does not disclose any significant deficiencies in internal control over major programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Title I (CFDA No. 84.010).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Benzie County Central School District qualified as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2007-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued

Finding Number 2007-2

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 access to assets and those with 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 the risk of material misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented measures such as Board review of all expenditures and Board President signature of all checks written over \$5,000. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings or questioned costs.



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Benzie County Central School District

We have audited the financial statements of Benzie County Central School District (the "School District") for the year ended June 30, 2007 and have issued our report thereon dated October 2, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

Internal Control

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

We consider the following deficiencies to be significant deficiencies in internal control:

Segregation of Duties

The size of the administrative staff precludes proper segregation of duties for optimal internal control. Ideally, the internal control system of the School District should segregate the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. It is our understanding that the Board is very active in the financial oversight of the School District's operations and has established an environment of active oversight responsibility. Although there is no indication of any significant errors or misappropriation of assets, we recommend the Board continue its financial oversight involvement due to the inherent lack of segregation of duties.

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the School District's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the School District has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the School District has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The School District has committed the resources necessary to meet its internal reporting needs. In this regard, the School District is not unlike many other schools of its size.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose as described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above are material weaknesses.

Further, during the course of our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operation efficiencies. The following paragraphs summarize our comments and suggestions regarding these matters. This letter does not effect our report dated October 2, 2007 on the financial statements of the School District.

Budget Violations

The purpose of Public Act 621 is to provide the structure necessary for a close relationship between the administration and the local school board with regard to the establishment of budgets and appropriations. During the course of the audit, we noted budget violations in instruction, community services and other expenditures. We understand there are instances when unbudgeted items arise. We would like to stress to management and the Board the importance of budget monitoring throughout the year and the formal amendment of the budget when required by Public Act 621.

Property Tax and State Aid Revenue

Throughout the year, changes in the taxable value of non-homestead property will affect how much property tax revenue the School District receives during the year. These changes will also affect how much State aid revenue the School District will receive or be required to return. We recommend the School District monitor these items carefully for any necessary adjustments.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, we do not consider such estimates to be particularly sensitive.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School District, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Recorded Adjustments

None.

Unrecorded Adjustments

We identified various differences between actual and recorded revenue which both we and the School District management concluded were immaterial to the financial statements.

There Were No Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

There Were No Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of Board of Education and management of Benzie County Central School District and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Education
Benzie County Central School District
Page 5

We are pleased to serve as the District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 2, 2007