

Bronson Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2017

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Independent Auditors' Report

Board of Education
Bronson Community Schools
Bronson, 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 Bronson Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bronson Community Schools as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report (under separate cover) dated August 24, 2017, on our consideration of Bronson Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bronson Community Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 24, 2017

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2017

As administration of Bronson Community Schools, Counties of Branch and St. Joseph, State of Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

Financial Highlights

- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented in fiscal year 2015. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the District's pension plan administered through the Michigan Public School Employees' Retirement System (MPERS). The unfunded pension liability has been established through actuarial valuations and will be amortized over a 22 year period which began with the plan's fiscal year-end of September 30, 2014 in the first year of implementation. With the recording of this pension liability, the liabilities of the District exceeded its assets. The balance of the net position at the close of the most recent fiscal year was \$(5,512,885), a negative net position.
- The District's total net position increased by \$958,449. The increase represents an increase in ongoing revenues and decreases in ongoing expenditures.
- As of the close of the current fiscal year, the District's aggregated fund balance for the District's governmental funds was \$3,354,555 or approximately 33 percent of the total expenditures of these funds.
- The General Fund had a net change in fund balance of \$425,840. At the end of the year, the total fund balance for the General Fund was \$2,379,476 or approximately 26 percent of the total General Fund expenditures and outgoing transfers.
- In a prior fiscal year, the taxpayers of the District approved a Sinking Fund tax levy of 2.0 mills for five years to make improvements to the school facilities. Some of the improvements that have and will be taking place include interior and exterior door replacements throughout the District; replacement, repair and/or resurfacing of all of the roofs in the District; replacing gymnasium lighting in all of the school buildings; replacing plumbing fixtures throughout the District; and adding an egress for the sixth grade wing at the Bronson Jr./Sr. High School. The property tax revenue for the fiscal year restricted to Sinking Fund capital improvement expenditures totaled approximately \$430,000.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. 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 provide information about the School District's most significant funds – the General Fund and the Sinking Fund as well as the District's non-major fund, the Food Service Fund.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities – One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2017

The Statement of Net Position and Statement of Activities report the governmental activities for the District. These services include instruction, support services, community services, athletics, food services, and transfers to other local districts. Property taxes, intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities. All of the current year's revenues and expenses for these services are taken into consideration regardless of when cash is received or paid.

The Statement of Net Position reports the District's net position, the difference between assets and liabilities. The Statement of Activities reports the District's change in net position, the revenues less expenses for the fiscal year, either as an increase or a decrease, or in other words, the operating results for the year. However, the School District's goal is to provide services to its students, not to generate profits, as private-sector corporations do.

These two statements report the District's net position and changes in net position. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The district-wide financial statements can be found on pages 1- 2 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*.

Governmental Funds – Most of the District'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. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District'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.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Fiduciary Funds – The District is the fiduciary for various student group activities and scholarships. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary funds are reported in a separate statement of fiduciary net position and are presented on the full accrual basis of accounting.

The basic fiduciary fund financial statements can be found on pages 7 – 8 of this report.

Additional Information – The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 9 – 23 of this report.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2017

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the District's governmental activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The following is a summary of the School District's net position as of June 30, 2017 and 2016:

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 5,012,727	\$ 4,419,847
Non-current assets	<u>3,408,052</u>	<u>3,019,467</u>
Total assets	<u>8,420,779</u>	<u>7,439,314</u>
Deferred outflows of resources	<u>1,797,223</u>	<u>1,526,506</u>
Current liabilities	1,658,172	1,656,534
Non-current liabilities	<u>13,493,835</u>	<u>13,232,056</u>
Total liabilities	<u>15,152,007</u>	<u>14,888,590</u>
Deferred inflows of resources	<u>578,880</u>	<u>548,564</u>
Net position:		
Invested in capital assets – net of related debt	3,408,052	3,019,467
Restricted for capital projects	760,931	655,297
Unrestricted	<u>(9,681,868)</u>	<u>(10,146,098)</u>
Total net position	<u>\$ (5,512,885)</u>	<u>\$ (6,471,334)</u>

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and the reconciliation appears on page 4.

By far the largest portion of the District's positive net position reflects its investment in capital assets (i.e. land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt, if any, must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Typically, one portion of the District's net position, the *restricted* portion, represents resources that are subject to external restrictions on how they may be used. In the case of the School District, *restricted* net position is related to property taxes collected for sinking fund capital projects not spent at year-end. The *unrestricted* balance of \$(9,681,868), which is a *negative* net position, is negative as a result of the pension liability. The pension liability at fiscal year-end is expected to be reduced to \$0 over a 22 year period.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2017

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which depicts the changes in net position.

The following is a summary of the change in net position for the year ended June 30, 2017 and 2016.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 275,928	\$ 269,775
Operating grants	1,851,287	1,445,243
General revenues:		
Property taxes	1,464,808	1,461,985
Grants and state aid	7,061,340	6,820,170
Other	<u>68,361</u>	<u>71,549</u>
Total revenues	<u>10,721,724</u>	<u>10,068,722</u>
Functions/Program Expenses:		
Instruction	5,553,788	5,369,180
Support services	3,566,684	3,176,284
Food service activities	622,792	594,733
Other	7,315	4,342
Capital outlay	<u>12,696</u>	<u>4,397</u>
Total expenses	<u>9,763,275</u>	<u>9,148,936</u>
 Increase (decrease) in net position	 958,449	 919,786
Net position beginning of year	<u>(6,471,334)</u>	<u>(7,391,120)</u>
Ending net position	<u>\$ (5,512,885)</u>	<u>\$ (6,471,334)</u>

The District's net position increased by \$958,449 during the current fiscal year. The increase in net position differs from the change in fund balances and the reconciliation appears on page 6.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

General Fund Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan Law. The most significant budgeted funds are the General Fund and the Food Service Fund.

During the fiscal year ended June 30, 2017, the School District amended the budgets of these governmental funds twice. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's General Fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The General Fund actual revenue and other financing sources was \$9,673,773. That amount is below the amended budget estimate of \$9,677,955. The variance (0.0432%) was due in most part to year-end adjustments in state revenues as well as a decrease in miscellaneous revenues.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2017

The actual expenditures and other financing uses of the General Fund were \$9,247,933, which is below the amended budget estimate of \$9,355,818. The \$107,885 variance (1.2%) was due to mid-year changes in discretionary expenditures at the District level in response to the changes in anticipated revenues. More detail of these changes may be found in the District budget amendment resolutions.

The General Fund had total revenues of \$9,673,773 and total expenditures of \$9,247,933 with a net change in fund balance of \$425,840 and an ending fund balance of \$2,379,476. The current year net increase was somewhat expected going into this year due to making the necessary cuts in the prior years to prepare for increasing costs in the future.

There were no significant differences between the final budget and actual amounts.

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2017, the School District had \$10,406,284 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$6,998,232 in depreciation has been taken over the years. We currently have a net book value of \$3,408,052.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 62,200	\$ 62,200
Buildings and improvements	6,106,231	5,791,875
Furniture and equipment	3,358,226	3,858,390
Buses and other vehicles	879,627	809,819
Total capital assets	<u>10,406,284</u>	<u>10,522,284</u>
Less accumulated depreciation	<u>6,998,232</u>	<u>7,502,817</u>
Net capital assets	<u>\$ 3,408,052</u>	<u>\$ 3,019,467</u>

Major capital asset events during the current fiscal year included the following:

Purchase of one hundred twenty Chromebooks to be split between all three buildings (\$21,288), new copier at Anderson (\$7,562), new copier at Ryan (\$7,562), security system additions at Ryan, Anderson, & Jr./Sr. High (\$20,259), folding cafeteria tables at the Jr./Sr. High School (\$13,764), new computers for all district office staff (\$12,904), final roof recoat for the Jr./Sr. High School (\$270,078), architect fees for the roof recoat at the elementary buildings (\$16,118), door replacements (\$15,856), phone system for the District (\$23,364), upgraded gymnasium lighting at the Jr./Sr. High School (\$12,303), and two buses (\$168,953).

Long-Term Debt – State statutes limit the amount of general obligation debt that a school district may issue to 15 percent of its total assessed valuation (State Equalized Value). At June 30, 2017, the District had no long-term bonded debt outstanding. There was no new borrowing this year other than State Aid notes to meet cash flow needs. The District does have a long-term pension liability, netted with related deferred inflows and deferred outflows of resources, of approximately \$12,275,000. This liability is being amortized over a 22 year period beginning with the plan year ended September 30, 2014. See Note 8 for further information.

Additional information on the District's short-term debt can be found in Note 6 on pages 16 and 17 of this report.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2017

Economic Factors and Next Year's Budgets and Rates

On March 15, 1994, the electors of the State of Michigan approved a ballot proposition to amend the State Constitution of 1963, in part, to increase the State sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among school districts. The State Aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation guarantee beginning in fiscal year 1994-1995. The foundation allowance has been established for 2017-2018 as \$7,631. At the time the FY18 budget was prepared, the foundation allowance had not been set. The foundation guarantee consists of the locally raised property taxes plus State Aid. The source of revenues for the State's contribution to the foundation allowance is derived from a mix of taxing sources, including but not limited to, a State-wide property tax of six mills on all property (homestead and non-homestead), a State sales and use tax, a real estate transfer tax and a cigarette tax. One additional factor for Bronson Community Schools is the loss of revenue due to a "Headlee Rollback." This occurs when the revenue generated by the increase in taxable values of property in the District outstrips the rate of inflation. This has caused the District to rollback the millage it may levy on all non-homestead property to 17.7264 mills instead of the 18 mills that have been voter approved. Consequently, the District has lost over \$153,016 in revenue since '04-'05. The loss will be approximately \$10,000 per year. If the State does not receive enough revenue to support enacted State School Aid Budgets we could have our State Aid payments reduced during the year which has happened in the past.

Changes in the costs for the retirement contribution for employees along with reductions in federal funding are causing an ever growing strain on school budgets, ours included. We hope to mitigate this problem by careful staffing decisions, acute awareness of opportunities to cut costs, and attempting to enhance our revenues when possible. Our buildings continue to show the signs of aging, but we are working very hard to do as much as we can with the funds we have available.

The following factors were considered in preparing the District's budgets for the 2017-2018 fiscal year:

- Foundation allowance of approximately \$7,611 per pupil – an increase of \$100 per pupil from '16-'17
- Section 22d rural district - \$44 per pupil
- Student enrollment projected at 13 FTE lower than in 2016-2017
- Hiring of an additional third grade teacher
- Increase of salaries district wide by 1% with a \$500 off schedule payment for all permanent staff
- Increased revenue for the MPERS Stabilization funds to 11.32%.
- Retirement blended rate including the MPERS Stabilization decreased from 37.72% to 37.56%

Additional detail is available through analyzing District budgets and supporting documents for '17-'18.

Requests for Information

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

Mrs. Rachelle Roby
Business Manager
Bronson Community Schools
501 E. Chicago St.
Bronson, MI 49028
Phone 517.369.3241
Fax 517.369.2802
E-mail robyr@bronsonschools.org

Bronson Community Schools
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Cash and investments	\$ 3,456,897
Receivables:	
Due from other governmental units	1,507,522
Inventories	4,533
Prepaid expenses	43,775
Capital assets less accumulated depreciation of \$6,998,232	3,408,052
Total assets	8,420,779
Deferred Outflows of Resources:	
Pension related	1,797,223
Total deferred outflows of resources	1,797,223
Liabilities:	
Accounts payable and accrued expenses	907,147
State aid anticipation notes	665,800
Unearned revenue	85,225
Net pension liability	13,493,835
Total liabilities	15,152,007
Deferred Inflows of Resources:	
Pension related	578,880
Total deferred inflows of resources	578,880
Net Position:	
Net investment in capital assets	3,408,052
Restricted for:	
Capital projects	760,931
Unrestricted	(9,681,868)
Total net position	\$ (5,512,885)

See Notes to Financial Statements.

Bronson Community Schools
Statement of Activities
Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>
Primary government				
Governmental activities:				
Instruction	\$ 5,553,788	\$ -	\$ 1,282,349	\$ (4,271,439)
Support services	3,566,684	98,374	66,215	(3,402,095)
Food service activities	622,792	177,554	502,723	57,485
Community services	7,315	-	-	(7,315)
Capital outlay	12,696	-	-	(12,696)
Total governmental activities	<u>\$ 9,763,275</u>	<u>\$ 275,928</u>	<u>\$ 1,851,287</u>	<u>(7,636,060)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,036,120
Property taxes, levied for capital projects				428,688
State aid not restricted to specific purposes				7,061,340
Interest and investment earnings				10,061
Other				58,300
Total general revenues				<u>8,594,509</u>
Change in Net Position				958,449
Net Position - Beginning of Year				<u>(6,471,334)</u>
Net Position - End of Year				<u>\$ (5,512,885)</u>

See Notes to Financial Statements.

Bronson Community Schools
Balance Sheet
Governmental Funds
June 30, 2017

<u>Assets</u>	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 2,515,842	\$ 760,931	\$ 180,124	\$ 3,456,897
Due from other governments	1,503,224	-	4,298	1,507,522
Inventories	-	-	4,533	4,533
Prepaid expenditures	3,775	-	40,000	43,775
Total assets	<u>\$ 4,022,841</u>	<u>\$ 760,931</u>	<u>\$ 228,955</u>	<u>\$ 5,012,727</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 18,476	\$ -	\$ 14,807	\$ 33,283
State aid anticipation notes	665,800	-	-	665,800
Unearned revenue	85,225	-	-	85,225
Salaries payable	475,991	-	-	475,991
Accrued expenditures	397,873	-	-	397,873
Total liabilities	<u>1,643,365</u>	<u>-</u>	<u>14,807</u>	<u>1,658,172</u>
Fund Balances:				
Nonspendable:				
Inventories	-	-	4,533	4,533
Prepaid expenditures	3,775	-	40,000	43,775
Restricted:				
Food services	-	-	169,615	169,615
Capital projects	-	760,931	-	760,931
Assigned for subsequent year expenditures	392,832	-	-	392,832
Unassigned	1,982,869	-	-	1,982,869
Total fund balances	<u>2,379,476</u>	<u>760,931</u>	<u>214,148</u>	<u>3,354,555</u>
Total liabilities and fund balances	<u>\$ 4,022,841</u>	<u>\$ 760,931</u>	<u>\$ 228,955</u>	<u>\$ 5,012,727</u>

See Notes to Financial Statements.

Bronson Community Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to
Net Position of Governmental Activities on the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds		\$	3,354,555
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in government activities are not financial resources and are not reported in the funds.			
The cost of capital assets is	\$	10,406,284	
Accumulated depreciation is		<u>(6,998,232)</u>	
			3,408,052
Long-term liabilities are not due and payable in the current period and not reported in the funds.			
Net pension liability		(13,493,835)	
Deferred outflows related to pensions		1,797,223	
Deferred inflows related to net pensions		<u>(578,880)</u>	
			(12,275,492)
Total Net Position - Governmental Activities		\$	<u><u>(5,512,885)</u></u>

Bronson Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Local sources	\$ 1,134,494	\$ 428,688	\$ 177,554	\$ 1,740,736
State sources	8,093,739	-	33,475	8,127,214
Federal sources	371,658	-	469,248	840,906
Investment earnings	9,831	230	-	10,061
Interdistrict and other	62,732	3,768	-	66,500
Total revenues	<u>9,672,454</u>	<u>432,686</u>	<u>680,277</u>	<u>10,785,417</u>
Expenditures:				
Instruction	5,578,157	-	-	5,578,157
Support services	3,662,232	-	-	3,662,232
Food service activities	-	-	619,419	619,419
Community services	7,315	-	-	7,315
Capital outlay	-	327,052	-	327,052
Total expenditures	<u>9,247,704</u>	<u>327,052</u>	<u>619,419</u>	<u>10,194,175</u>
Revenues Over (Under) Expenditures	<u>424,750</u>	<u>105,634</u>	<u>60,858</u>	<u>591,242</u>
Other Financing Sources (Uses):				
Transfers in	1,090	-	-	1,090
Transfers out	-	-	(1,090)	(1,090)
Total other financing sources and uses	<u>1,090</u>	<u>-</u>	<u>(1,090)</u>	<u>-</u>
Net Changes in Fund Balances	425,840	105,634	59,768	591,242
Fund Balances - Beginning of Year	<u>1,953,636</u>	<u>655,297</u>	<u>154,380</u>	<u>2,763,313</u>
Fund Balances - End of Year	<u>\$ 2,379,476</u>	<u>\$ 760,931</u>	<u>\$ 214,148</u>	<u>\$ 3,354,555</u>

See Notes to Financial Statements.

Bronson Community Schools

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds		\$ 591,242
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$ (193,226)	
Capital outlay	<u>590,011</u>	
		396,785
Governmental funds report the entire net sales price (proceeds) from the sale of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of assets. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.		
Net book value of assets sold		(8,200)
Governmental funds report the required pension contributions for the fiscal year June 30, 2017 as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year.		
Changes in pension related liabilities and deferrals		<u>(21,378)</u>
Change in Net Position of Governmental Activities		<u><u>\$ 958,449</u></u>

Bronson Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust Fund	Agency Fund
Assets:		
Cash and cash equivalents	\$ 50,527	\$ 230,583
Liabilities:		
Due to student groups	-	\$ 230,583
Net Position:		
Held in trust	\$ 50,527	

Bronson Community Schools
Statement of Change in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2017

	Private Purpose Trust Fund
Additions:	
Contributions	\$ 4,050
Total additions	4,050
Deductions:	
Scholarships awarded	2,530
Total deductions	2,530
 Change in Net Position	 1,520
Net Position - Beginning of Year	49,007
Net Position - End of Year	\$ 50,527

See Notes to Financial Statements.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Bronson Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’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 segment 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. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements with nonmajor governmental funds aggregated into a single column.

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. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State Aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

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

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Project Fund – This type of fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The District maintains one capital project fund, the Sinking Fund, which has restricted property taxes as its source of revenue. For this Sinking Fund, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

Additionally, the District reports the following fund types:

Food Service Fund – This Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for the specified purposes of food service activity for the District.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the district-wide statements.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and other groups for school-related purposes. The funds are segregated and held in trust for students, parents, alumni, and others.

The private purpose trust fund is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent. These funds are not reported on the District financial statements. The District's trust fund, the Scholarship Fund, is maintained to provide scholarships for secondary education.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity

State Revenue – The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of 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 pupil membership counts taken in February 2016 and September 2016.

The State portion of the foundation is provided primarily by a State education property tax millage of six mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded mainly by non-PRE property (non-homestead) taxes which may be levied at a rate of up to 18 mills plus 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded through payments from October to August of each year. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The District also receives revenue from the State to administer 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 unearned revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes - Property taxes levied by the School District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2017, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-principal residence exemption (PRE)	17.7264
General Fund – Commercial personal property	5.7264
Sinking Fund – All taxable values	2.0000

Tax abatements provided to property tax payers, if any, were not significant, and thus no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Cash and Investments (Continued) – State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

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.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are 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 as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. 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 School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	50 years
Site improvements	20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-20 years

Compensated Absences - The District does not report a liability for compensated absences. Sick leave can be accumulated up to 120 days and any accumulations are paid out in October of the following fiscal year for current employees. The amount has been estimated and deemed immaterial and thus management determined it was not necessary to record the liability. Any accumulation of sick pay at retirement or termination is forfeited. Vacation leave cannot be carried over from year to year, and any unused leave at year-end is forfeited.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from liabilities, and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bond issuance costs are expensed as incurred.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Deferred Outflows/Inflows of Resources – In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Debt issued as well as premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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 represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to deferred pension plan expenses. Deferred pension plan expenses are recognized in the plan years to which it applies. The District also currently reports deferred outflows of resources from pension payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its pension plan. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 8 for detailed information.

Fund Balance – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates – The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Bronson Community Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund and special revenue funds. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of budgeted estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated at the function level per State law. Violations if any, for the General Fund are noted in the required supplementary information section.
4. Transfers of budgeted amounts are allowed between functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2017.

Note 3 – Cash and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	<u>\$3,456,897</u>	<u>\$ 281,110</u>	<u>\$3,738,007</u>

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,597,525
Investments in pooled investments (MILAF)	2,140,282
Petty cash and cash on hand	<u>200</u>
Total	<u>\$3,738,007</u>

Bronson Community Schools
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

There are no limitations or restrictions on participant withdrawals for investment pools that are recorded at amortized cost, except for a one-day minimum investment period on MILAF cash management funds and a fourteen-day redemption limitation on MILAF MAX Class funds.

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year-end, the District's deposit balance of \$1,600,000 included \$1,350,000 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's investment policy does not restrict investment maturities beyond State law.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. See Note 1 for a full description of allowed investments. The District's investment policy does not further limit its investment choices.

The District's investments under the interlocal agreement (MILAF) in the amount of \$2,140,282 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poor's.

Concentration of Credit Risk – The District's investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at June 30, 2017 consist of amounts due from other governmental units, primarily the Michigan Department of Education, plus other miscellaneous receivables. Total receivables are \$1,507,522.

Bronson Community Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Capital assets not being depreciated – land	\$ <u>62,200</u>	\$ _____ -	\$ _____ -	\$ <u>62,200</u>
Capital assets being depreciated:				
Buildings and improvements	5,439,455	-	-	5,439,455
Site improvements	352,420	314,356	-	666,776
Buses and other vehicles	809,819	168,953	99,145	879,627
Furniture and equipment	<u>3,858,390</u>	<u>106,702</u>	<u>606,866</u>	<u>3,358,226</u>
Subtotal	<u>10,460,084</u>	<u>590,011</u>	<u>706,011</u>	<u>10,344,084</u>
Accumulated depreciation:				
Buildings and improvements	3,199,181	51,353	-	3,250,534
Site improvements	215,977	18,314	-	234,291
Buses and other vehicles	569,440	53,030	93,145	529,325
Furniture and equipment	<u>3,518,219</u>	<u>70,529</u>	<u>604,666</u>	<u>2,984,082</u>
Subtotal	<u>7,502,817</u>	<u>193,226</u>	<u>697,811</u>	<u>6,998,232</u>
Net capital assets being depreciated	<u>2,957,267</u>	<u>396,785</u>	<u>(8,200)</u>	<u>3,345,852</u>
Net capital assets	\$ <u>3,019,467</u>	\$ <u>396,785</u>	\$ <u>(8,200)</u>	\$ <u>3,408,052</u>

Depreciation for the fiscal year totaled \$193,226 which is allocated amongst the various functions of the School District as follows:

Instruction	\$ 20,230
Support	168,862
Food service	<u>4,134</u>
Total	<u>\$193,226</u>

Note 6 – Notes Payable

For the fiscal year ended June 30, 2017, the School District was issued State Aid anticipation notes that totaled \$929,000, with interest rates between 0.7600% and 1.2000% and maturity dates of July 20, 2017 and August 21, 2017, as follows:

<u>Note</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2016 C-1	\$ 131,520	1.0000%	07/20/2017
2016 C-2	197,480	0.7600%	07/20/2017
2016 C-3	600,000	1.2000%	08/21/2017

Bronson Community Schools
Notes to Financial Statements

Note 6 – Notes Payable (Continued)

The State Aid anticipation notes are secured by the full faith and credit of the School District as well as pledged State Aid. Notes 2016 C-1 and 2016 C-2 required payments to an irrevocable set-aside account of \$263,200 in total by June 30, 2017. At year-end, the total of these payments is considered defeased debt and is not included in the year-end balance, leaving an outstanding balance at June 30, 2017 of \$665,800. Activity for the year is as follows:

<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2017</u>
\$ <u>675,000</u>	\$ <u>929,000</u>	\$ <u>938,200</u>	\$ <u>665,800</u>

Note 7 – Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District has purchased commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

Note 8 – Defined Benefit Pension Plan and Post-Employment Benefits

Organization

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the School District. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

Bronson Community Schools
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Organization (Continued)

Plan Description (Continued) – The System’s financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available at www.michigan.gov/mpsers-cafr. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan’s fiduciary net position.

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district’s contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District’s contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 14.56% to 18.95% for the period of July 1, 2016 through September 30, 2016 and 15.27% to 19.03% for the period of October 1, 2016 through June 30, 2017.

The District’s required and actual contributions to the plan for the year ended June 30, 2017 were \$1,275,439. The District’s required and actual contributions include an allocation of \$416,300 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended June 30, 2017.

Bronson Community Schools
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

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

Proportionate Share of School District’s Net Pension Liability - At June 30, 2017, the District reported a liability of \$13,493,835 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The District’s proportionate share of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2016, the District’s proportionate share percent was .05408528 percent, a decrease of .00008889 percent from its proportion measured as of September 30, 2015.

Pension Expense - For the year ended June 30, 2017, the School District recognized pension expense of \$1,240,651, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Deferred Outflows and Deferred Inflows - At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 168,169	\$ 31,981
Changes of assumptions	210,966	-
Net difference between projected and actual earnings on pension plan investments	224,267	-
Changes in proportion and differences between the School District’s contributions and its proportionate share of contributions	648	130,599
School District contributions subsequent to the measurement date	<u>1,193,173</u>	<u>416,300</u>
Total	<u>\$ 1,797,223</u>	<u>\$ 578,880</u>

\$1,193,173 reported as deferred outflows of resources related to pensions resulting from District 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.

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

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$ 60,783
2019	43,146
2020	290,004
2021	47,537

Payables to the Pension Plan - The District reported an accrued pension plan payable at June 30, 2017 of \$123,853. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2017 but not yet paid.

Bronson Community Schools
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions

Actuarial Valuations and Assumptions - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2015
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.6273.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Bronson Community Schools
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return on Plan Assets (Continued) – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.9%
Alternative investment pools	18.0%	9.2%
International equity	16.0%	7.2%
Fixed income pools	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.3%
Absolute return pools	15.5%	6.0%
Short-term investment pools	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

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

Discount Rate - A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District’s proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
<u>1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%</u>	<u>Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%</u>	<u>1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%</u>
<u>\$17,376,663</u>	<u>\$13,493,835</u>	<u>\$10,220,238</u>

*The Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Bronson Community Schools
Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Related Subsequent Events

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended). The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions related to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Post-Employment Benefits Other than Pensions (OPEB)

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2016 through September 30, 2016 was 6.40% to 6.83% and for the period of October 1, 2016 through June 30, 2017 was 5.69% to 5.91%, dependent upon the employee's date of hire and plan election.

Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 403b account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were approximately \$434,500 and \$418,400, and \$158,000, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

Note 9 – Tax Deferred Annuity Plan

The District maintains a 403(b) tax deferred annuity plan for eligible administrative employees which is administered by OMNI. The Board has authority over establishing and amending the plan to meet 403(b) criteria. Total employer contributions to the plan for the fiscal year were approximately \$24,000 and there was no related payable outstanding at fiscal year-end.

Bronson Community Schools
Notes to Financial Statements

Note 10 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 11 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which will result in accounting and reporting changes. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the District, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the District's fiscal year ending June 30, 2018.

Required Supplemental Information

Bronson Community Schools
 Budgetary Comparison Schedules - General Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 1,105,576	\$ 1,131,763	\$ 1,134,494
State sources	7,681,039	8,099,477	8,093,739
Federal sources	366,906	368,572	371,658
Investment earnings	2,700	9,685	9,831
Interdistrict and other	53,998	67,140	62,732
Total revenues	<u>9,210,219</u>	<u>9,676,637</u>	<u>9,672,454</u>
Expenditures:			
Instruction:			
Basic programs	5,078,417	4,930,184	4,888,905
Added needs	699,291	698,518	689,252
Support services:			
Pupil	177,269	178,776	175,454
Instructional staff	89,995	105,279	104,506
General administration	279,892	274,101	269,879
School administration	666,334	646,165	638,437
Business	178,160	175,225	173,371
Operation & maintenance	1,112,068	1,022,078	998,728
Pupil transportation	754,580	780,099	766,655
Central services	231,762	239,620	237,732
Athletic activities	296,000	298,540	297,470
Community services:			
Community activities	2,314	2,768	3,151
Non-public school pupils	4,163	4,164	4,164
Total expenditures	<u>9,570,245</u>	<u>9,355,517</u>	<u>9,247,704</u>
Revenues Over (Under) Expenditures	<u>(360,026)</u>	<u>321,120</u>	<u>424,750</u>
Other Financing Sources (Uses):			
Transfers in	-	1,318	1,319
Transfers out	-	(301)	(229)
Total other financing sources and uses	<u>-</u>	<u>1,017</u>	<u>1,090</u>
Net Changes in Fund Balances	(360,026)	322,137	425,840
Fund Balances - Beginning of Year	<u>1,953,636</u>	<u>1,953,636</u>	<u>1,953,636</u>
Fund Balances - End of Year	<u>\$ 1,593,610</u>	<u>\$ 2,275,773</u>	<u>\$ 2,379,476</u>

Bronson Community Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Three Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.05408528%</u>	<u>0.05417417%</u>	<u>0.05495000%</u>
District's proportionate share of net pension liability	<u>\$ 13,493,835</u>	<u>\$ 13,232,056</u>	<u>\$ 12,102,808</u>
District's covered-employee payroll	<u>\$ 4,600,819</u>	<u>\$ 4,550,305</u>	<u>\$ 4,699,769</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>293.29%</u>	<u>290.79%</u>	<u>257.52%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Bronson Community Schools
 Schedule of the District's Contributions to the MPSERS Plan
 Last Three Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,275,439	\$ 1,223,349	\$ 1,004,493
Contributions in relation to statutorily required contributions	<u>1,275,439</u>	<u>1,223,349</u>	<u>1,004,493</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 4,624,441</u>	<u>\$ 4,441,016</u>	<u>\$ 4,585,498</u>
Contributions as a percentage of covered-employee payroll	<u>27.58%</u>	<u>27.55%</u>	<u>21.91%</u>

Bronson Community Schools
Notes to Required Supplementary Information Pension Schedules
Year Ended June 30, 2017

Changes of Benefit Terms: There were no changes of benefit terms in 2016.

Changes of Assumptions: There were no changes of benefit assumptions in 2016.

Bronson Community Schools

Single Audit Report

Year Ended June 30, 2017

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WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Education
Bronson Community Schools
Bronson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bronson Community Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Bronson Community Schools' basic financial statements, and have issued our report thereon dated August 24, 2017.

Internal Control Over Financial Reporting

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

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

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

Board of Education
Bronson Community Schools
Bronson, Michigan

Compliance and Other Matters

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

Purpose of this Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 24, 2017



WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Education
Bronson Community Schools
Bronson, Michigan

Report on Compliance for Each Major Federal Program

We have audited Bronson Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Bronson Community Schools' major federal programs for the year ended June 30, 2017. Bronson Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Bronson Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Bronson Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bronson Community Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Bronson Community Schools' basic financial statements. We issued our report thereon dated August 24, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 24, 2017

Bronson Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Unearned) Revenue 7/1/2016</u>	<u>Prior Years Expenditures (Memorandum Only)</u>	<u>Prior Year Adjustments</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Unearned) Revenue 6/30/2017</u>
U.S. Department of Agriculture									
Child Nutrition Cluster:									
Passed through MI Department of Education:									
National School Lunch Program									
Non-cash Assistance (Commodities)	10.555		\$ 49,626	\$ -	\$ -	\$ -	\$ 49,626	\$ 49,626	\$ -
Cash Assistance	10.555	161960	283,422	-	252,519	-	30,903	30,903	-
		161980	2,226	-	2,190	-	37	37	-
		171960	255,031	-	-	-	255,031	255,031	-
		171980	1,023	-	-	-	1,023	1,023	-
			<u>541,702</u>	<u>-</u>	<u>254,709</u>	<u>-</u>	<u>286,994</u>	<u>286,994</u>	<u>-</u>
Total School Lunch Program			<u>591,328</u>	<u>-</u>	<u>254,709</u>	<u>-</u>	<u>336,620</u>	<u>336,620</u>	<u>-</u>
School Breakfast Program	10.553	161970	112,707	-	99,743	-	12,964	12,964	-
		171970	116,839	-	-	-	116,839	116,839	-
			<u>229,546</u>	<u>-</u>	<u>99,743</u>	<u>-</u>	<u>129,803</u>	<u>129,803</u>	<u>-</u>
Summer Food Service Program	10.559	160900	2,743	536	536	-	2,743	2,207	-
		161900	287	56	56	-	288	232	-
		170900	350	-	-	-	-	350	350
		171900	36	-	-	-	-	36	36
			<u>3,416</u>	<u>592</u>	<u>592</u>	<u>-</u>	<u>3,031</u>	<u>2,825</u>	<u>386</u>
Total Cash Assistance			<u>774,664</u>	<u>592</u>	<u>355,044</u>	<u>-</u>	<u>419,828</u>	<u>419,622</u>	<u>386</u>
Total Child Nutrition Cluster			<u>824,290</u>	<u>592</u>	<u>355,044</u>	<u>-</u>	<u>469,454</u>	<u>469,248</u>	<u>386</u>
Total United States Department of Agriculture			<u>824,290</u>	<u>592</u>	<u>355,044</u>	<u>-</u>	<u>469,454</u>	<u>469,248</u>	<u>386</u>

See Accompanying Footnotes.

Bronson Community Schools
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Unearned) Revenue 7/1/2016</u>	<u>Prior Years Expenditures (Memorandum Only)</u>	<u>Prior Year Adjustments</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Unearned) Revenue 6/30/2017</u>
U.S. Department of Education:									
Passed through MI Department of Education:									
Title I Part A	84.010	161530-1516	318,992	59,052	305,707	(366)	58,686	-	-
		171530-1617	<u>290,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247,469</u>	<u>273,740</u>	<u>26,271</u>
			<u>609,367</u>	<u>59,052</u>	<u>305,707</u>	<u>(366)</u>	<u>306,155</u>	<u>273,740</u>	<u>26,271</u>
Title IIA	84.367	160520-1516	149,194	9,831	105,732	(549)	9,282	-	-
		170520-1617	<u>122,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,594</u>	<u>66,764</u>	<u>3,170</u>
			<u>271,305</u>	<u>9,831</u>	<u>105,732</u>	<u>(549)</u>	<u>72,876</u>	<u>66,764</u>	<u>3,170</u>
Title VIB	84.358	160660-1516	20,390	744	20,361	-	744	-	-
		170660-1617	<u>21,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,410</u>	<u>21,410</u>	<u>-</u>
			<u>41,800</u>	<u>744</u>	<u>20,361</u>	<u>-</u>	<u>22,154</u>	<u>21,410</u>	<u>-</u>
Total passed through MI Department of Education			<u>922,472</u>	<u>69,627</u>	<u>431,800</u>	<u>(915)</u>	<u>401,185</u>	<u>361,914</u>	<u>29,441</u>
Passed through Sturgis Public Schools:									
Title III Limited English	84.365	2015-2016	11,909	1,234	8,055	-	1,234	-	-
		2016-2017	<u>10,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,313</u>	<u>10,659</u>	<u>1,346</u>
			<u>22,568</u>	<u>1,234</u>	<u>8,055</u>	<u>-</u>	<u>10,547</u>	<u>10,659</u>	<u>1,346</u>
Total United States Department of Education			<u>945,040</u>	<u>70,861</u>	<u>439,855</u>	<u>(915)</u>	<u>411,732</u>	<u>372,573</u>	<u>30,787</u>
			<u>\$ 1,769,330</u>	<u>\$ 71,453</u>	<u>\$ 794,899</u>	<u>\$ (915)</u>	<u>\$ 881,186</u>	<u>\$ 841,821</u>	<u>\$ 31,173</u>

Bronson Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

	<u>Amount</u>
Revenue from Federal sources - per financial statements (includes all funds)	\$ 840,906
Adjustment to prior year Title expenses	<u>915</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 841,821</u>

Bronson Community Schools
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Bronson Community Schools (the "District") under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Note 2 – Summary of Significant Explanations of Schedule

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenue is recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue, and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports with any reconciling items noted on page 8. The amounts on the Grant Auditor Report reconcile with this schedule. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and the expenditures include any spoilage or pilferage.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by section 200.414 of the Uniform Guidance.

Note 3 – Subrecipients

No federal awards were passed through the District to any subrecipients during the year.

Bronson Community Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2017

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported

Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ yes <u> X </u> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I, Part A
84.367	Title II, Part A

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 750,000 </u>
Auditee qualified as low-risk	_____ yes <u> X </u> no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Bronson Community Schools
Comments on Resolution of Findings from June 30, 2016
Single Audit Report

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

2016-001 – Verification of Income

Criteria or Specific Requirement: The District is required to annually perform a verification of income reported on applications for free and reduced meals. Sample size of the verification is based on the number of applications received.

Condition: The District did not have in place a control to ensure the verification was performed in accordance with the requirements. The verification was completed by the District; however, when determining the sample size, the District rounded down instead of up so the sample size was less than the required amount.

Cause and Effect: Due to the incorrect calculation, the verification was not fully completed with the appropriate number of applications.

Recommendation: The District should modify the control process over compliance requirements to ensure complete compliance with the program requirements.

Views of Responsible Officials: After review of the finding, we have discussed with our food service coordinator and will implement a process to ensure the correct number of applications are tested in the future. This will be done prior to the selection of applications to be verified for the 2016-2017 year.

Status: A review procedure has been implemented to ensure the verification is completed appropriately.

2016-002 – Eligibility

Criteria or Specific Requirement: The District is required to determine annually a child's eligibility for free or reduced meals based on the child's household income and household size or based on the child's household receiving benefits under various other programs per 7 CFR section 225.15(f).

Condition: The District has implemented a review process of applications in response to the prior year finding, however the review process was not documented and therefore, the control was untestable.

Recommendation: The District should modify the control process over the processing of applications to include written documentation as proof of review.

Views of Responsible Officials: We have modified our process of approving and reviewing applications to include written documentation as proof of review. This corrective action was implemented prior to the release of our audit.

Status: A review procedure including written documentation has been implemented.



WILLIS & JURASEK

CPAS AND CONSULTANTS

August 24, 2017

To the Board of Education
Bronson Community Schools
Bronson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bronson Community Schools for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 7, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bronson Community Schools are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. The most sensitive estimates affecting the government-wide financial statements were:

Management has estimated the value of capitalized assets and the related accumulated depreciation. The bulk of the capitalized costs is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements of any significance. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management 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 District's financial statements or a determination of the type of auditors' 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.

Other Audit Findings or Issues

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.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedule, the Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan, and the Schedule of the District's Contributions to the MPSERS Plan and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Recommendations

Consider contract expiration dates for cutoff procedures for appropriate accrual of health insurance at year-end.

We recommend that the PTO be organized as a separate legal entity rather than as an activity included in the School's agency fund.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Bronson Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.