

Bronson Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2014

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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, 2014, 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.

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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, 2014, 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 and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 July 18, 2014, 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.

July 18, 2014

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2014

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, 2014.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,260,445 (net position). Of this amount, \$1,180,754 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students, and creditors.
- The District's total net position increased by \$24,267. 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 \$1,224,390 or 12.75 percent of the total expenditures of these funds.
- The general fund had a net change in fund balance of \$104,326. At the end of the year, the total fund balance for the general fund was \$1,134,728 or 12.66 percent of the total general fund expenditures and outgoing transfers.

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 fund – the General 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. However, the School District's goal is to provide services to our students, not to generate profits, as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Position and Statement of Activities present information about the following:

Governmental Activities – All of the District's basic services are considered to be governmental activities, including 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.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2014

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 financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*. The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the Notes to Financial Statements.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is 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.

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. 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. 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 activities are reported in a separate Statement of Fiduciary Net Position.

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 – 17 of this report.

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.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2014

The following is a summary of the School District's net position as of June 30, 2014 and 2013:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Current assets	\$2,753,626	\$3,056,318
Non-current assets	<u>3,036,055</u>	<u>3,106,671</u>
Total assets	<u>5,789,681</u>	<u>6,162,989</u>
Current liabilities	1,529,236	1,926,811
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>1,529,236</u>	<u>1,926,811</u>
Net position:		
Invested in capital assets – net of related debt	3,036,055	3,106,671
Restricted for food service	43,636	54,484
Unrestricted	<u>1,180,754</u>	<u>1,075,023</u>
Total net position	<u>\$4,260,445</u>	<u>\$4,236,178</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 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 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, we have no amounts that have to be restricted for debt service and capital projects. At this time, we have no debt which needs to be repaid from voter approved property taxes collected as the debt service comes due. The remaining balance of \$1,180,754, which is *unrestricted* net position, may be used to meet the District's ongoing obligations to citizens and creditors.

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 for fiscal year 2014.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2014

The following is a summary of the change in net position for the year ended June 30, 2014:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 261,834	\$ 260,231
Operating grants	1,644,504	1,448,890
General revenues:		
Property taxes	844,286	774,258
Grants and state aid	6,880,989	7,104,379
Other	<u>58,455</u>	<u>11,390</u>
Total revenues	<u>9,690,068</u>	<u>9,599,148</u>
Functions/Program Expenses:		
Instruction	5,458,591	5,824,747
Support services	3,564,234	3,413,052
Food service activities	635,838	718,220
Other	7,138	3,257
Depreciation (unallocated)	-	185,028
Total expenses	<u>9,665,801</u>	<u>10,144,304</u>
Increase (decrease) in net position	24,267	(545,156)
Net position beginning of year	<u>4,236,178</u>	<u>4,781,334</u>
Ending net position	<u>\$ 4,260,445</u>	<u>\$ 4,236,178</u>

The District's net position increased by \$24,267 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, 2014, 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 and Food Service 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 \$9,067,810. That amount is above the amended budget estimate of \$9,061,568. The variance (0.0006%) was due in most part to small year-end adjustments in investment earnings and small increases in miscellaneous revenues.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2014

The actual expenditures and other financing uses of the General Fund were \$8,963,484, which is below the amended budget estimate of \$9,083,606. The \$120,122 variance (1.34%) 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 \$9,067,810 and total expenditures of \$8,963,484 with a net change in fund balance of \$104,326 and an ending fund balance of \$1,134,728. The current year net increase was somewhat expected going into this year due to the necessary cuts that were made throughout the year in order to remain viable.

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 2014, the School District had \$10,331,930 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$7,295,875 in depreciation has been taken over the years. We currently have a net book value of \$3,036,055.

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 62,200	\$ 62,200
Buildings and improvements	5,780,983	5,780,983
Furniture and equipment	3,651,176	3,603,257
Buses and other vehicles	<u>837,571</u>	<u>816,345</u>
Total capital assets	<u>10,331,930</u>	<u>10,262,785</u>
Less accumulated depreciation	<u>7,295,875</u>	<u>7,156,114</u>
Net capital assets	<u>\$ 3,036,055</u>	<u>\$ 3,106,671</u>

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

Purchase of twenty eight tablets for Anderson Elementary (\$8,456), thirty nine netbooks for Ryan Elementary (\$15,760), one used bus (\$69,002), one new transportation vehicle (\$9,640) and a convection oven for the Anderson kitchen (\$7,077) and computer hardware/software (\$16,626).

Long-Term Debt – At June 30, 2014, the District had no long-term debt outstanding. There was no new borrowing this year other than State Aid notes to meet cash flow needs.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2014

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). The current outstanding general obligation debt for Bronson Community Schools is significantly below the current debt limitation.

Additional information on the District's short-term debt can be found in Note 6 on page 15 of this report.

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 2014-2015 as \$7,076. 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 statewide 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 \$123,016 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.

Increases in the costs for the retirement contribution for employees along with increases in the cost of providing health insurance for employees are putting 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 and this will need to be addressed in the near future.

The following factors were considered in preparing the District's budgets for the 2014-2015 fiscal year:

- Foundation allowance of approximately \$7,076 per pupil – an increase of \$50 per pupil from '13-'14
- Equity payment in the State Aid in the amount of \$125 per pupil
- Student enrollment projected at 33FTE lower than in 2013-2014
- \$40 per pupil in Performance Pay
- Increased revenue for the MPSERS Stabilization funds to 9.41%.
- Reduction in staff by one professional staff member through attrition
- Retirement blended rate including the MPSERS Stabilization increased from 30.80% to 34.74%

Additional detail is available through analyzing District budgets and supporting documents for '14-'15.

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:

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Bronson Community Schools
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets:	
Cash and investments	\$ 1,187,872
Receivables:	
Due from other governmental units	1,491,099
Inventories	6,026
Prepaid expenses	68,629
Capital assets less accumulated depreciation of \$7,295,875	3,036,055
Total assets	5,789,681
Liabilities:	
Accounts payable and accrued expenses	854,236
State aid anticipation notes	675,000
Total liabilities	1,529,236
Net Position:	
Net investment in capital assets	3,036,055
Restricted for food service	43,636
Unrestricted	1,180,754
Total net position	\$ 4,260,445

See Notes to Financial Statements.

Bronson Community Schools
Statement of Activities
Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
Primary government				
Governmental activities:				
Instruction	\$ 5,458,591	\$ -	\$ 1,173,977	\$ (4,284,614)
Support services	3,564,234	103,729	-	(3,460,505)
Food service activities	635,838	158,105	470,527	(7,206)
Community services	7,138	-	-	(7,138)
Total governmental activities	<u>\$ 9,665,801</u>	<u>\$ 261,834</u>	<u>\$ 1,644,504</u>	<u>(7,759,463)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				844,286
State aid not restricted to specific purposes				6,880,989
Interest and investment earnings				970
Other				57,485
Total general revenues				<u>7,783,730</u>
Change in Net Position				24,267
Net Position - Beginning of Year				<u>4,236,178</u>
Net Position - End of Year				<u><u>\$ 4,260,445</u></u>

See Notes to Financial Statements.

Bronson Community Schools
 Balance Sheet
 Governmental Funds
 June 30, 2014

	General Fund	Food Service Fund	Total Governmental Funds
<u>Assets</u>			
Cash and investments	\$ 1,128,572	\$ 59,300	\$ 1,187,872
Receivable from other governments	1,485,245	5,854	1,491,099
Inventories	-	6,026	6,026
Prepaid expenditures	28,629	40,000	68,629
Total assets	\$ 2,642,446	\$ 111,180	\$ 2,753,626
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 14,545	\$ 21,518	\$ 36,063
State aid anticipation notes	675,000	-	675,000
Salaries payable	501,910	-	501,910
Accrued expenditures	316,263	-	316,263
Total liabilities	1,507,718	21,518	1,529,236
Fund Balances:			
Nonspendable:			
Inventories	-	6,026	6,026
Prepaid expenses	28,629	40,000	68,629
Restricted	-	43,636	43,636
Assigned for subsequent year expenditures	261,900	-	261,900
Unassigned	844,199	-	844,199
Total fund balances	1,134,728	89,662	1,224,390
Total liabilities and fund balances	\$ 2,642,446	\$ 111,180	\$ 2,753,626

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, 2014

Total Fund Balances - Governmental Funds	\$	1,224,390
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	\$	10,331,930
Accumulated depreciation is	<u>(7,295,875)</u>	
		3,036,055
Total Net Position - Governmental Activities	<u>\$</u>	<u>4,260,445</u>

Bronson Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources	\$ 948,015	\$ 158,105	\$ 1,106,120
State sources	7,542,402	44,602	7,587,004
Federal sources	512,564	425,925	938,489
Investment earnings	970	-	970
Interdistrict and other	63,859	-	63,859
Total revenues	<u>9,067,810</u>	<u>628,632</u>	<u>9,696,442</u>
Expenditures:			
Instruction	5,462,592	-	5,462,592
Support services	3,493,754	-	3,493,754
Food service activities	-	638,075	638,075
Community services	7,138	-	7,138
Total expenditures	<u>8,963,484</u>	<u>638,075</u>	<u>9,601,559</u>
Net Changes in Fund Balances	104,326	(9,443)	94,883
Fund Balances - Beginning of Year	<u>1,030,402</u>	<u>99,105</u>	<u>1,129,507</u>
Fund Balances - End of Year	<u>\$ 1,134,728</u>	<u>\$ 89,662</u>	<u>\$ 1,224,390</u>

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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 94,883

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	\$ (190,803)	
Capital outlay	<u>126,561</u>	(64,242)

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	<u>(6,374)</u>
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Change in Net Position of Governmental Activities \$ 24,267

Bronson Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust Fund	Agency Fund
Assets:		
Cash and cash equivalents	\$ 76,479	\$ 179,937
Liabilities:		
Due to student groups	-	\$ 179,937
Net Position:		
Held in trust	\$ 76,479	

See Notes to Financial Statements.

Bronson Community Schools
Statement of Change in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Private Purpose Trust Fund
Additions:	
Contributions	\$ 3,856
Total additions	3,856
Deductions:	
Scholarships awarded	9,270
Total deductions	9,270
 Change in Net Position	 (5,414)
Net Position - Beginning of Year	81,893
Net Position - End of Year	\$ 76,479

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

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.

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. 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.

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.

Additionally, the District reports the following fund type:

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 assets and results of operations are not included in the district-wide statements.

The 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 parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

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 is maintained to provide scholarships for secondary education.

Revenues, Assets, Liabilities, and Net Assets 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, 2014, the foundation allowance was based on pupil membership counts taken in February 2014 and September 2013.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

State Revenue (Continued) - The State portion of the foundation is provided primarily by a State education property tax millage of six mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded mainly by non-primary residence property (non-homestead) taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2013 to August 2014. Thus, the unpaid portion at June 30th 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, 2014, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-primary residence exemption	(PRE)	17.7264
General Fund – Commercial personal property		5.7264

Deposits 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 Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. 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.

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.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” 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. The government defines capital assets 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, but at retirement or termination, accumulated sick pay is forfeited. Vacation leave cannot be carried over from year to year. 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 effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

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.

Fund Equity – 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) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Fund Equity (Continued) - 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.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. 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. Violations if any, for the General Fund and Food Service Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts 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 and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2014.

Bronson Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ <u>1,187,872</u>	\$ <u>256,416</u>	\$ <u>1,444,288</u>

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,023,832
Investments in pooled investments	420,256
Petty cash and cash on hand	<u>200</u>
Total	<u>\$1,444,288</u>

Investment and Deposit Risk

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 \$1,030,000 had \$780,000 of bank deposits that were uninsured and uncollateralized.

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. The District's investments under the interlocal agreement (MILAF) in the amount of \$420,256 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 AAA according to Standard and Poor's.

Note 4 – Receivables

Receivables at June 30, 2014 consist of amounts due from other governmental units, primarily the Michigan Department of Education, plus other miscellaneous receivables. Total receivables are \$1,491,099.

Note 5 – Capital Assets

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

	Beginning Balance	Additions	Disposals and Adjustments	Year-End Balance
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	341,528	-	-	341,528
Buses and other vehicles	816,345	78,642	57,416	837,571
Furniture and equipment	<u>3,603,257</u>	<u>47,919</u>	_____ -	<u>3,651,176</u>
Subtotal	<u>10,200,585</u>	<u>126,561</u>	<u>57,416</u>	<u>10,269,730</u>

Bronson Community Schools
Notes to Financial Statements

Note 5 – Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Accumulated depreciation:				
Buildings and improvements	\$ 2,996,904	\$ 75,462	\$ -	\$ 3,072,366
Site improvements	185,787	12,265	-	198,052
Buses and other vehicles	616,405	44,930	51,042	610,293
Furniture and equipment	<u>3,357,018</u>	<u>58,146</u>	<u>-</u>	<u>3,415,164</u>
Subtotal	<u>7,156,114</u>	<u>190,803</u>	<u>51,042</u>	<u>7,295,875</u>
Net capital assets being depreciated	<u>3,044,471</u>	<u>(64,242)</u>	<u>(6,374)</u>	<u>2,973,855</u>
Net capital assets	<u>\$ 3,106,671</u>	<u>\$ (64,242)</u>	<u>\$ (6,374)</u>	<u>\$ 3,036,055</u>

Depreciation for the fiscal year totaled \$190,803 which is allocated amongst the various functions of the School District as follows:

Instruction	\$ 20,216
Support	165,746
Food service	<u>4,841</u>
Total	<u>\$190,803</u>

Note 6 – Notes Payable

At June 30, 2014, the School District had State Aid anticipation notes outstanding that totaled \$675,000, with interest rates between 0.430% and 1.378% and maturity dates of July 21, 2014 and August 20, 2014.

<u>Note</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2013 B-1	\$ 375,000	0.430%	07/21/2014
2013 B-2	330,000	1.050%	08/20/2014
2013 B-3	270,000	1.378%	08/20/2014

The State Aid anticipation notes are secured by the full faith and credit of the School District as well as pledged state aid. Note 2013 B-1 required payments to an irrevocable set-aside account of \$300,000 by June 30, 2014. At year-end, the total of these payments is considered defeased debt and is not included in the year-end balance.

<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
<u>\$ 673,800</u>	<u>\$ 975,000</u>	<u>\$ 973,800</u>	<u>\$ 675,000</u>

The District has also approved the issuance of State Aid anticipation notes for the 2014-15 school year totaling \$975,000 due in two increments with maturity dates of \$375,000 on July 20, 2015 and \$600,000 on August 20, 2015.

Bronson Community Schools
Notes to Financial Statements

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

Plan Description – The District participates in the Michigan Public School Employees' Retirement System (MPERS), a state-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan and administered by the twelve-member board of the MPERS. The MPERS provides retirement, survivor and disability benefits and postretirement benefits options for health, dental and vision coverage for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, MI 48909-7671 or by calling (517) 322-5103. This information can also be accessed at <http://www.michigan.gov/orsschools>.

Funding Policy – Members contribute various rates, ranging from 0% to 7%, based primarily upon date of hire.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the fiscal year varied, ranging from 18.34% to 25.86%, based upon employee hire dates and options selected. In addition, the District is required to match 50% up to 1% of the employee contributions in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The School District's contributions to the MPERS plan for the years ended June 30, 2014, 2013, and 2012 were approximately \$1,421,000, \$1,380,000, and \$1,278,000, respectively.

Included in the amounts paid above, the District received section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. These amounts were \$257,322, \$102,224, and \$0, respectively, and were recorded as State revenue and additional pension expenditures for the years then ended.

Post-Employment Benefits – Retirees have the option of health coverage, which is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees.

Bronson Community Schools
Notes to Financial Statements

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

Post-Employment Benefits (Continued) – For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

For District employees first employed under the System after September 3, 2012 or those electing to choose the benefit during a special election period ending February 1, 2013, a Personal Healthcare Fund (PHF) is set up. Automatic 2% employee contributions to a 457 account along with a 2% employer match will be placed in a 401(k) account. This creates a portable, tax-deferred fund for the individual. No post-employment benefits are available for those employees.

Funding Responsibility - The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. However, for future reporting and recognition requirements see Note 10.

Tax Deferred Annuity Plan – The District maintains a 403(b) tax deferred annuity plan for eligible administrative employees. Total employer contributions to the plan for the fiscal year were approximately \$30,000.

Note 9 – 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 10 – Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board has issued *Statement 68 Accounting and Financial Reporting for Pensions*, effective for the year ending June 30, 2015. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. A liability will be recorded in the government-wide financial statements, but not the individual funds. The effect of these changes has not been determined, but all Michigan school districts are expected to see a large liability posted. The recorded liability will not change the actual cash expenditures for pension expense.

Required Supplemental Information

Bronson Community Schools
 Budgetary Comparison Schedules - General Fund and Food Service Fund
 Year Ended June 30, 2014

	<u>General Fund</u>			<u>Food Service Fund</u>		
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Original</u>	<u>Final</u>	
Revenues:						
Local sources	\$ 913,889	\$ 948,006	\$ 948,015	\$ 146,553	\$ 158,103	\$ 158,105
State sources	7,552,014	7,542,400	7,542,402	33,870	44,602	44,602
Federal sources	405,752	516,408	512,564	453,500	424,133	425,925
Investment earnings	1,350	900	970	-	-	-
Interdistrict and other	51,498	53,854	63,859	5,000	-	-
Total revenues	<u>8,924,503</u>	<u>9,061,568</u>	<u>9,067,810</u>	<u>638,923</u>	<u>626,838</u>	<u>628,632</u>
Expenditures:						
Instruction:						
Basic programs	4,761,628	4,705,797	4,653,073	-	-	-
Added needs	726,891	822,197	809,519	-	-	-
Support services:						
Pupil	183,126	172,771	170,536	-	-	-
Instructional staff	101,655	91,932	90,469	-	-	-
General administration	256,752	273,550	268,648	-	-	-
School administration	640,001	644,143	636,260	-	-	-
Business	168,858	148,855	147,637	-	-	-
Operation & maintenance	1,016,596	985,916	964,267	-	-	-
Pupil transportation	745,192	707,485	694,836	-	-	-
Central services	241,294	245,041	243,128	-	-	-
Athletic activities	271,338	278,776	277,973	-	-	-
Community services:						
Community activities	1,500	921	916	-	-	-
Non-public school pupils	6,789	6,222	6,222	-	-	-
Food service activities	-	-	-	675,877	642,314	638,075
Total expenditures	<u>9,121,620</u>	<u>9,083,606</u>	<u>8,963,484</u>	<u>675,877</u>	<u>642,314</u>	<u>638,075</u>
Net Changes in Fund Balances	(197,117)	(22,038)	104,326	(36,954)	(15,476)	(9,443)
Fund Balances - Beginning of Year	<u>1,030,402</u>	<u>1,030,402</u>	<u>1,030,402</u>	<u>99,105</u>	<u>99,105</u>	<u>99,105</u>
Fund Balances - End of Year	<u>\$ 833,285</u>	<u>\$ 1,008,364</u>	<u>\$ 1,134,728</u>	<u>\$ 62,151</u>	<u>\$ 83,629</u>	<u>\$ 89,662</u>

Bronson Community Schools

Single Audit Report

Year Ended June 30, 2014

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

Board of Education
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, 2014, and the related notes to the financial statements, which collectively comprise Bronson Community Schools' basic financial statements, and have issued our report thereon dated July 18, 2014.

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 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.

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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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

July 18, 2014



Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about 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, 2014.

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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 OMB Circular A-133, 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 combination of deficiencies, in internal control over compliance with a type of a 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 OMB Circular A-133

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, 2014, and the related notes to the financial statements, which collectively comprise Bronson Community Schools' basic financial statements. We issued our report thereon dated July 18, 2014, 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 OMB Circular A-133 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

Board of Education
Bronson Community Schools
Page 3

America. In our opinion, the information is fairly stated in all material respects in relation to the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

July 18, 2014

Bronson Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award/Grant Entitlement Program Amount	Accrued (Deferred) Revenue 7/1/2013	Prior Years Expenditures (Memorandum Only)	Prior Year Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2014
U.S. Department of Agriculture									
Child Nutrition Cluster:									
Passed through MI Department of Education:									
Non-cash Assistance (Commodities):									
National School Lunch Program - Regular	10.555		\$ 37,117	\$ -	\$ -	\$ -	\$ 37,117	\$ 37,117	\$ -
Cash Assistance:									
National School Lunch Program	10.555	131960	293,566	10,890	251,161	-	42,405	31,515	-
		131980	2,136	46	1,798	-	249	203	-
		141960	232,835	-	-	-	232,835	232,835	-
		141980	2,224	-	-	-	2,224	2,224	-
			<u>530,761</u>	<u>10,936</u>	<u>252,959</u>	<u>-</u>	<u>277,713</u>	<u>266,777</u>	<u>-</u>
School Breakfast Program	10.553	131970	142,443	6,158	121,760	-	20,683	14,525	-
		141970	103,288	-	-	-	103,288	103,288	-
			<u>245,731</u>	<u>6,158</u>	<u>121,760</u>	<u>-</u>	<u>123,971</u>	<u>117,813</u>	<u>-</u>
Summer Food Service Program	10.559	130900	2,904	619	3,263	-	2,904	2,285	-
		131900	306	65	341	-	306	241	-
		140900	1,534	-	-	-	-	1,534	1,534
		141900	159	-	-	-	-	158	158
			<u>4,903</u>	<u>684</u>	<u>3,604</u>	<u>-</u>	<u>3,210</u>	<u>4,218</u>	<u>1,692</u>
Total Cash Assistance			<u>781,395</u>	<u>17,778</u>	<u>378,323</u>	<u>-</u>	<u>404,894</u>	<u>388,808</u>	<u>1,692</u>
Total Child Nutrition Cluster			<u>818,512</u>	<u>17,778</u>	<u>378,323</u>	<u>-</u>	<u>442,011</u>	<u>425,925</u>	<u>1,692</u>
Total United States Department of Agriculture			<u>818,512</u>	<u>17,778</u>	<u>378,323</u>	<u>-</u>	<u>442,011</u>	<u>425,925</u>	<u>1,692</u>
U.S. Department of Education:									
Passed through MI Department of Education:									
Title I Part A	84.010	131530-1213	426,362	79,087	291,899	-	79,087	-	-
		141530-1314	464,203	-	-	-	292,591	401,333	108,742
			<u>890,565</u>	<u>79,087</u>	<u>291,899</u>	<u>-</u>	<u>371,678</u>	<u>401,333</u>	<u>108,742</u>
Title IIA	84.367	130520-1213	123,366	10,110	55,489	-	10,110	-	-
		140520-1314	147,942	-	-	-	69,509	77,609	8,100
			<u>271,308</u>	<u>10,110</u>	<u>55,489</u>	<u>-</u>	<u>79,619</u>	<u>77,609</u>	<u>8,100</u>
Title VIB	84.358	130660-1213	41,476	41,476	41,476	-	41,476	-	-
		140660-1314	20,206	-	-	-	19,401	20,206	805
			<u>61,682</u>	<u>41,476</u>	<u>41,476</u>	<u>-</u>	<u>60,877</u>	<u>20,206</u>	<u>805</u>
Total passed through MI Department of Education			<u>1,223,555</u>	<u>130,673</u>	<u>388,864</u>	<u>-</u>	<u>512,174</u>	<u>499,148</u>	<u>117,647</u>
Passed through Coldwater Schools:									
Title III Limited English	84.365		13,416	-	-	-	10,268	13,416	3,148
Total United States Department of Education			<u>1,236,971</u>	<u>130,673</u>	<u>388,864</u>	<u>-</u>	<u>522,442</u>	<u>512,564</u>	<u>120,795</u>
			<u>\$ 2,055,483</u>	<u>\$ 148,451</u>	<u>\$ 767,187</u>	<u>\$ -</u>	<u>\$ 964,453</u>	<u>\$ 938,489</u>	<u>\$ 122,487</u>

Bronson Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	<u>Amount</u>
Revenue from Federal sources - per financial statements (includes all funds)	\$ <u>938,489</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>938,489</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 includes the federal grant activity of Bronson Community Schools' federal government programs for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Bronson Community Schools, it is not intended to and does not present the financial position or changes in net position of Bronson Community Schools.

Note 2 – Summary of Significant Accounting Policies

The schedule reports expenditures on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) 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.

Note 3 – Grant Auditor's Report

Management has utilized the Grant Auditor's Report in preparing the Schedule of Expenditures of Federal Awards.

Bronson Community Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness identified	_____ yes	_____ X _____	no	
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes	_____ X _____	no	
Noncompliance material to financial statements noted	_____ yes	_____ X _____	no	

Federal Awards

Internal control over major programs:				
Material weakness identified	_____ yes	_____ X _____	no	
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes	_____ X _____	no	

Type of auditor’s report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	_____ yes	_____ X _____	no	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I
84.367	Title IIA

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000		
Auditee qualified as low-risk	_____ yes	_____ X _____	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, 2013
Single Audit Report

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None



July 18, 2014

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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 June 2, 2014. 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 accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. We noted no transactions entered into by the governmental unit 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's estimate of the value of capitalized assets and the estimate of 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 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 July 18, 2014.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We recommend giving consideration to increasing controls over receipts for the food service and athletic activities through more centralizing of accounting or more oversight.

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

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.