

Bronson Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2015

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Issued Under
Separate
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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, 2015, 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, 2015, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the fiscal year ended June 30, 2015, Bronson Community Schools implemented new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bronson Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report (under separate cover) dated October 22, 2015, 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.

October 22, 2015

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2015

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, 2015.

Financial Highlights

- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the fiscal year. 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 beginning with the plan's fiscal year-end of September 30, 2014. 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 \$(7,391,120) (negative net position).
- The District's total net position increased by \$362,209. 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 \$1,812,792 or approximately 19 percent of the total expenditures of these funds.
- The general fund had a net change in fund balance of \$303,981. At the end of the year, the total fund balance for the general fund was \$1,438,709 or approximately 16 percent of the total general fund expenditures and outgoing transfers.
- 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 include boiler replacement and repair at Anderson Elementary, interior and exterior door replacement throughout the District, replacement of the fire alarm system at Ryan Elementary, repair and/or resurfacing of all of the roofs in the District and other items as the need arises. The property tax revenue for the fiscal year restricted to sinking fund capital improvement expenditures totaled \$395,000.

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 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.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2015

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.

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 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.

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 – 29 of this report.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2015

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, 2015 and 2014:

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Current assets	\$ 3,368,607	\$ 2,753,626
Non-current assets	<u>2,974,090</u>	<u>3,036,055</u>
Total assets	<u>6,342,697</u>	<u>5,789,681</u>
Deferred outflows of resources	<u>1,262,776</u>	-
Current liabilities	1,555,815	1,529,236
Non-current liabilities	<u>12,102,808</u>	<u>12,013,774**</u>
Total liabilities	<u>13,658,623</u>	<u>13,543,010</u>
Deferred inflows of resources	<u>1,337,970</u>	-
Net position:		
Invested in capital assets – net of related debt	2,974,090	3,036,055
Restricted for food service	63,891	43,636
Restricted for capital projects	265,079	-
Unrestricted	<u>(10,694,180)</u>	<u>(10,833,020)</u>
Total net position	<u>\$ (7,391,120)</u>	<u>\$ (7,753,329)</u>

** Includes deferred inflows and deferred outflows not separated out for fiscal year 2014.

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 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. At this time, we have no bonded debt which needs to be repaid from voter approved property taxes collected as the debt service comes due. The *unrestricted* balance of \$(10,694,180), 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, 2015

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 2015.

The following is a summary of the change in net position for the year ended June 30, 2015:

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 260,189	\$ 261,834
Operating grants	1,719,707	1,644,504
General revenues:		
Property taxes	1,263,605	844,286
Grants and state aid	6,847,113	6,880,989
Other	<u>62,010</u>	<u>58,455</u>
Total revenues	<u>10,152,624</u>	<u>9,690,068</u>
Functions/Program Expenses:		
Instruction	5,575,908	5,458,591
Support services	3,574,248	3,564,234
Food service activities	606,401	635,838
Other	5,407	7,138
Capital outlay	<u>28,451</u>	<u>-</u>
Total expenses	<u>9,790,415</u>	<u>9,665,801</u>
Increase (decrease) in net position	362,209	24,267
Net position beginning of year	(7,753,329)	4,236,178
Entry to record pension liability and related at June 30, 2014	<u>-</u>	<u>(12,013,774)</u>
Ending net position	<u>\$ (7,391,120)</u>	<u>\$ (7,753,329)</u>

The District's net position increased by \$362,209 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, 2015, 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 \$9,144,106. That amount is above the amended budget estimate of \$9,131,972. The variance (0.00133%) 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, 2015

The actual expenditures and other financing uses of the General Fund were \$8,840,125, which is below the amended budget estimate of \$8,979,800. The \$139,675 variance (1.6%) 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 \$9,144,106 and total expenditures of \$8,840,125 with a net change in fund balance of \$303,981 and an ending fund balance of \$1,438,709. 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 2015, the School District had \$10,449,975 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$7,475,885 in depreciation has been taken over the years. We currently have a net book value of \$2,974,090.

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 62,200	\$ 62,200
Buildings and improvements	5,780,983	5,780,983
Furniture and equipment	3,769,221	3,651,176
Buses and other vehicles	<u>837,571</u>	<u>837,571</u>
Total capital assets	<u>10,449,975</u>	<u>10,331,930</u>
Less accumulated depreciation	<u>7,475,885</u>	<u>7,295,875</u>
Net capital assets	<u>\$ 2,974,090</u>	<u>\$ 3,036,055</u>

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

Purchase of twenty seven notebooks for Ryan Elementary (\$9,867), one lab of desktop computers at the Jr./Sr. High School (\$17,207), IBOSS Internet Security (\$5,070), one new mower (\$6,400) and boiler replacement and repair at Anderson Elementary (\$93,757) and boiler modular repair at Chicago Street School (\$7,758).

Long-Term Debt – At June 30, 2015, 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 \$12,200,000. This liability is being amortized over a 22 year period. See Note 8 for further information.

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 16 of this report.

Bronson Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2015

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 2015-2016 as \$7,391. 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 \$133,016 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 2015-2016 fiscal year:

- Foundation allowance of approximately \$7,391 per pupil – an increase of \$140 per pupil from '14-'15
- Section 22d rural district-\$44 per pupil
- Student enrollment projected at 38FTE lower than in 2015-2016
- Reduction of \$40 per pupil in Performance Pay and \$50 per pupil in Best Practice Pay
- Increased revenue for the MPSERS Stabilization funds to 10.53%.
- Reduction in staff by 1.4 professional staff members, one custodian, one secretary and one maintenance person through attrition.
- Retirement blended rate including the MPSERS Stabilization increased from 34.74% to 36.83%

Additional detail is available through analyzing District budgets and supporting documents for '15-'16.

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, 2015

	Governmental Activities
Assets:	
Cash and investments	\$ 1,863,682
Receivables:	
Due from other governmental units	1,457,476
Inventories	5,113
Prepaid expenses	42,336
Capital assets less accumulated depreciation of \$7,475,885	2,974,090
Total assets	6,342,697
Deferred Outflows of Resources:	
Pension related	1,262,776
Total deferred outflows of resources	1,262,776
Liabilities:	
Accounts payable and accrued expenses	878,978
State aid anticipation notes	675,000
Unearned revenue	1,837
Long-term liabilities:	
Net pension liability	12,102,808
Total liabilities	13,658,623
Deferred Inflows of Resources:	
Pension related	1,337,970
Total deferred inflows of resources	1,337,970
Net Position:	
Net investment in capital assets	2,974,090
Restricted for:	
Food service	63,891
Capital projects	265,079
Unrestricted	(10,694,180)
Total net position	\$ (7,391,120)

See Notes to Financial Statements.

Bronson Community Schools
Statement of Activities
Year Ended June 30, 2015

<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	\$ 5,575,908	\$ -	\$ 1,256,614	\$ (4,319,294)
Support services	3,574,248	102,203	-	(3,472,045)
Food service activities	606,401	157,986	463,093	14,678
Community services	5,407	-	-	(5,407)
Capital outlay	28,451	-	-	(28,451)
Total governmental activities	<u>\$ 9,790,415</u>	<u>\$ 260,189</u>	<u>\$ 1,719,707</u>	<u>(7,810,519)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				868,598
Property taxes, levied for capital projects				395,007
State aid not restricted to specific purposes				6,847,113
Interest and investment earnings				572
Other				61,438
Total general revenues				<u>8,172,728</u>
Change in Net Position				362,209
Net Position - Beginning of Year				<u>(7,753,329)</u>
Net Position - End of Year				<u>\$ (7,391,120)</u>

See Notes to Financial Statements.

Bronson Community Schools
 Balance Sheet
 Governmental Funds
 June 30, 2015

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash and investments	\$ 1,521,257	\$ 342,425	\$ 1,863,682
Receivable from other governments	1,450,571	6,905	1,457,476
Inventories	-	5,113	5,113
Prepaid expenditures	2,336	40,000	42,336
	\$ 2,974,164	\$ 394,443	\$ 3,368,607
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 8,267	\$ 20,360	\$ 28,627
State aid anticipation notes	675,000	-	675,000
Unearned revenue	1,837	-	1,837
Salaries payable	486,190	-	486,190
Accrued expenditures	364,161	-	364,161
Total liabilities	1,535,455	20,360	1,555,815
Fund Balances:			
Nonspendable:			
Inventories	-	5,113	5,113
Prepaid expenses	2,336	40,000	42,336
Restricted:			
Food services	-	63,891	63,891
Capital projects	-	265,079	265,079
Assigned for subsequent year expenditures	191,371	-	191,371
Unassigned	1,245,002	-	1,245,002
Total fund balances	1,438,709	374,083	1,812,792
Total liabilities and fund balances	\$ 2,974,164	\$ 394,443	\$ 3,368,607

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, 2015

Total Fund Balances - Governmental Funds		\$	1,812,792
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		\$	10,449,975
Accumulated depreciation is			<u>(7,475,885)</u>
			2,974,090
Long-term liabilities are not due and payable in the current period and not reported in the funds.			
Net pension liability			(12,102,808)
Deferred outflows related to net pension liability			1,262,776
Deferred inflows related to net pension liability			<u>(1,337,970)</u>
			(12,178,002)
Total Net Position - Governmental Activities		\$	<u><u>(7,391,120)</u></u>

Bronson Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources	\$ 970,801	\$ 552,993	\$ 1,523,794
State sources	7,629,473	34,268	7,663,741
Federal sources	474,254	428,825	903,079
Investment earnings	534	38	572
Interdistrict and other	69,044	-	69,044
Total revenues	<u>9,144,106</u>	<u>1,016,124</u>	<u>10,160,230</u>
Expenditures:			
Instruction	5,465,035	-	5,465,035
Support services	3,369,683	-	3,369,683
Food service activities	-	601,737	601,737
Community services	5,407	-	5,407
Capital outlay	-	129,966	129,966
Total expenditures	<u>8,840,125</u>	<u>731,703</u>	<u>9,571,828</u>
Net Changes in Fund Balances	303,981	284,421	588,402
Fund Balances - Beginning of Year	<u>1,134,728</u>	<u>89,662</u>	<u>1,224,390</u>
Fund Balances - End of Year	<u>\$ 1,438,709</u>	<u>\$ 374,083</u>	<u>\$ 1,812,792</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, 2015

Net Change in Fund Balances - Total Governmental Funds		\$ 588,402
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	\$ (194,418)	
Capital outlay	<u>140,059</u>	
		(54,359)
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		(7,606)
Governmental funds report the required pension contributions for the fiscal year June 30, 2015 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. These differences are reported as follows:		
Pension expense	(980,376)	
Contribution expenditures post September 30, 2014	<u>816,148</u>	
		<u>(164,228)</u>
Change in Net Position of Governmental Activities		<u>\$ 362,209</u>

Bronson Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Private Purpose Trust Fund	Agency Fund
Assets:		
Cash and cash equivalents	\$ 56,436	\$ 215,018
Liabilities:		
Due to student groups	-	\$ 215,018
Net Position:		
Held in trust	\$ 56,436	

Bronson Community Schools
Statement of Change in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2015

	Private Purpose Trust Fund
Additions:	
Contributions	\$ 4,064
Total additions	4,064
Deductions:	
Scholarships awarded	24,107
Total deductions	24,107
 Change in Net Position	 (20,043)
Net Position - Beginning of Year	76,479
Net Position - End of Year	\$ 56,436

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.

Implementation of GASB Statement No. 68

The School District has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which was promulgated with the purpose of improving accounting and financial reporting for pensions. The Statement established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. As a result of this implementation, which was effective July 1, 2014, the beginning net position has been adjusted to reflect the beginning of year balances of the net pension liability and related deferrals of inflows and outflows of resources. This restatement is as follows:

Net position, as originally reported	\$ 4,260,445
Adjustment for net pension liability and related deferred inflows and outflows	<u>(12,013,774)</u>
Restated beginning net position	<u>\$ (7,753,329)</u>

See Note 8 for further information.

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.

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)

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.

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.

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 fund:

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.

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.

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 provision of Section 1212 of the Revised School Code.

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)

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 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, 2015, the foundation allowance was based on pupil membership counts taken in February 2015 and September 2014.

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 2014 to August 2015. 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, 2015, 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
Sinking Fund – all taxable values		2.0000

Bronson Community Schools

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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.

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

Bronson Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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.

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.

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 benefit terms. Investments are reported at fair value. See Note 8 for detailed information.

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. 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, 2015.

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>\$1,863,682</u>	<u>\$ 271,454</u>	<u>\$2,135,136</u>

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,026,670
Investments in pooled investments	1,108,266
Petty cash and cash on hand	<u>200</u>
Total	<u>\$2,135,136</u>

Bronson Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments (Continued)

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 \$1,108,266 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, 2015 consist of amounts due from other governmental units, primarily the Michigan Department of Education, plus other miscellaneous receivables. Total receivables are \$1,457,476.

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>
Assets not being depreciated – land	\$ 62,200	\$ -	\$ -	\$ 62,200
Capital assets being depreciated:				
Buildings and improvements	5,439,455	-	-	5,439,455
Site improvements	341,528	-	-	341,528
Buses and other vehicles	837,571	-	-	837,571
Furniture and equipment	<u>3,651,176</u>	<u>140,059</u>	<u>22,014</u>	<u>3,769,221</u>
Subtotal	<u>10,269,730</u>	<u>140,059</u>	<u>22,014</u>	<u>10,387,775</u>
Accumulated depreciation:				
Buildings and improvements	\$ 3,072,366	\$ 75,462	\$ -	\$ 3,147,828
Site improvements	198,052	12,266	-	210,318
Buses and other vehicles	610,293	45,857	-	656,150
Furniture and equipment	<u>3,415,164</u>	<u>60,833</u>	<u>14,408</u>	<u>3,461,589</u>
Subtotal	<u>7,295,875</u>	<u>194,418</u>	<u>14,408</u>	<u>7,475,885</u>
Net capital assets being depreciated	<u>2,973,855</u>	<u>(54,359)</u>	<u>(7,606)</u>	<u>2,911,890</u>
Net capital assets	<u>\$ 3,036,055</u>	<u>\$ (54,359)</u>	<u>\$ (7,606)</u>	<u>\$ 2,974,090</u>

Bronson Community Schools
Notes to Financial Statements

Note 5 – Capital Assets (Continued)

Depreciation for the fiscal year totaled \$194,418 which is allocated amongst the various functions of the School District as follows:

Instruction	\$ 19,151
Support	170,603
Food service	<u>4,664</u>
 Total	 <u>\$194,418</u>

Note 6 – Notes Payable

At June 30, 2015, the School District had State Aid anticipation notes outstanding that totaled \$675,000, with interest rates between 0.420% and 1.235% and maturity dates of July 20, 2015 and August 20, 2015.

<u>Note</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2014 B-1	\$ 375,000	0.420%	07/20/2015
2014 B-2	330,000	1.050%	08/20/2015
2014 B-3	270,000	1.235%	08/20/2015

The State Aid anticipation notes are secured by the full faith and credit of the School District as well as pledged state aid. Note 2014 B-1 required payments to an irrevocable set-aside account of \$300,000 by June 30, 2015. At year-end, the total of these payments is considered defeased debt and is not included in the year-end balance.

<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2015</u>
\$ <u>675,000</u>	\$ <u>975,000</u>	\$ <u>975,000</u>	\$ <u>675,000</u>

The District has also approved the issuance of State Aid anticipation notes for the 2015-16 school year totaling \$975,000 due in two increments with maturity dates of \$375,000 on July 20, 2016 and \$600,000 on August 20, 2016.

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.

Bronson Community Schools
Notes to Financial Statements

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

Organization

Plan Description - The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor, and the State Superintendent of Instruction, who serves as an ex-officio member. The Governor appointed board members consist of:

- Two active classroom teachers or other certified school personnel
- One active member or retirant from a non-certified support position
- One active school system superintendent
- One active finance or operations (non-superintendent) member
- One retirant from a classroom teaching position
- One retirant from a finance or operations management position
- One administrator or trustee of a community college that is a reporting unit of the System
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience
- One elected member of a reporting unit's board of control

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. By statute, employees of K–12 public school districts, public school academies, district libraries, tax-supported community colleges, and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological, and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

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.

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)

Membership - At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:

Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	<u>6,168</u>
Total	<u>204,512</u>

Inactive plan members entitled to but not yet receiving benefits: 16,979

Active plan members:

Vested	108,934
Non-vested	<u>101,843</u>
Total	<u>210,777</u>

Total plan members 432,268

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

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Bronson Community Schools
Notes to Financial Statements

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

Organization (Continued)

Member Contributions - Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 and December 31, 1989 contributed at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000, 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for twelve months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions - Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Summary of Significant Accounting Policies

Basis of Accounting and Presentation - The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Bronson Community Schools
Notes to Financial Statements

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

Summary of Significant Accounting Policies (Continued)

Reserves - Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Bronson Community Schools
Notes to Financial Statements

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

Summary of Significant Accounting Policies (Continued)

Reserves (Continued) - Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity - The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations.

Benefit Protection - Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Bronson Community Schools
Notes to Financial Statements

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

Summary of Significant Accounting Policies (Continued)

Investment Income - Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System - Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment - Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the System's Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over ten years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions - Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal, and investment services from the State. The space and services are not otherwise available by competitive bid.

Cash - At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

Bronson Community Schools
Notes to Financial Statements

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

Contributions and Funding Status

The majority of the members currently participate on a contributory basis, as described above under “Benefits Provided.” Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of five years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year’s contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System’s members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from one to twenty years. The amounts are withheld from members’ paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

Bronson Community Schools
Notes to Financial Statements

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

Net Pension Liability

Measurement of the MPSERS Net Pension Liability -The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPSERS (Plan) Net Pension Liability - Non-University as of September 30, 2014:

Total pension liability	\$ 65,160,887,182
Plan fiduciary net position	<u>43,134,384,072</u>
Net pension liability	<u>\$ 22,026,503,110</u>
Plan fiduciary net position as a percentage of total pension liability	66.20%
Net pension liability as a percentage of covered-employee payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

MPSERS (Plan) Net Pension Liability - Non-University as of October 1, 2013:

Total pension liability	\$ 62,859,499,994
Plan fiduciary net position	<u>39,427,686,072</u>
Net pension liability	<u>\$ 23,431,813,922</u>

Proportionate Share of Reporting Unit's Net Pension Liability - At September 30, 2014, the Reporting Unit reported a liability of \$12,102,808 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was .05495 percent.

Bronson Community Schools
Notes to Financial Statements

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

Net Pension Liability (Continued)

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. 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, 2014, 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%	4.8%
Alternative investment pools	18.0%	8.5%
International equity	16.0%	6.1%
Fixed income pools	10.5%	1.5%
Real estate & infrastructure pools	10.0%	5.3%
Absolute return pools	15.5%	6.3%
Short-term investment pools	<u>2.0%</u>	(0.2)%
Total	<u>100.0%</u>	

*Long-term rate of return does not include 2.5% inflation.

Rate of Return - For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

Bronson Community Schools
Notes to Financial Statements

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

Net Pension Liability (Continued)

Sensitivity of the Net Position Liability to Changes in the Discount Rate - As required by GASB Statement No. 68, the following presents the Reporting Unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the Reporting Unit'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>\$15,956,498</u>	<u>\$12,102,808</u>	<u>\$8,856,017</u>

Timing of the Valuation - An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014 is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

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.

Bronson Community Schools
Notes to Financial Statements

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

Net Pension Liability (Continued)

Actuarial Valuations and Assumptions (Continued) - 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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

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 increase	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	8.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. 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, 2014 is based on the results of an actuarial valuation date of September 30, 2013 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 – 4.8457.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

Bronson Community Schools
Notes to Financial Statements

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

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

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$980,376. At June 30, 2015, the Reporting Unit 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	\$ -	\$ -
Changes of assumptions	446,568	-
Net difference between projected and actual earnings on pension plan investments	-	1,337,970
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	60	-
Reporting unit contributions subsequent to the measurement date	<u>816,148</u>	<u>-</u>
Total	<u>\$ 1,262,776</u>	<u>\$ 1,337,970</u>

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>Plan Year Ended September 30</u>	<u>Amount</u>
2015	\$218,356
2016	218,356
2017	218,356
2018	236,274

Payables to the Pension Plan

The Reporting Unit reported an accrued pension plan payable at June 30, 2015 of \$234,640. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2015 but not yet paid.

Bronson Community Schools
Notes to Financial Statements

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

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 MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees.

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.

See "Contributions and Funding Status" above for additional OPEB information.

Note 9 – 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 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

The Government Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires new government disclosures about tax abatement agreements with entities and individuals including the purpose of the program, the tax being abated, the dollar amount and provisions for recapturing abated taxes as well as the types of commitments made by tax abatement recipients. It also requires disclosures about other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new standard also requires disclosures about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for the year ended June 30, 2017 with earlier application encouraged.

Required Supplemental Information

Bronson Community Schools
 Budgetary Comparison Schedules - General Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 937,201	\$ 968,365	\$ 970,801
State sources	7,699,300	7,628,138	7,629,473
Federal sources	372,950	466,654	474,254
Investment earnings	800	500	534
Interdistrict and other	32,481	68,315	69,044
Total revenues	<u>9,042,732</u>	<u>9,131,972</u>	<u>9,144,106</u>
Expenditures:			
Instruction:			
Basic programs	4,859,250	4,726,036	4,697,415
Added needs	641,673	778,511	767,620
Support services:			
Pupil	174,555	175,299	174,115
Instructional staff	93,064	64,366	62,889
General administration	276,523	268,169	263,552
School administration	686,771	675,250	666,931
Business	168,662	163,851	162,400
Operation & maintenance	1,155,821	961,362	923,439
Pupil transportation	693,959	621,494	580,190
Central services	259,415	255,021	252,058
Athletic activities	287,546	285,031	284,109
Community services:			
Community activities	1,500	1,022	1,021
Non-public school pupils	5,893	4,388	4,386
Total expenditures	<u>9,304,632</u>	<u>8,979,800</u>	<u>8,840,125</u>
Net Changes in Fund Balances	(261,900)	152,172	303,981
Fund Balances - Beginning of Year	<u>1,134,728</u>	<u>1,134,728</u>	<u>1,134,728</u>
Fund Balances - End of Year	<u><u>\$ 872,828</u></u>	<u><u>\$ 1,286,900</u></u>	<u><u>\$ 1,438,709</u></u>

Bronson Community Schools
Michigan Public School Employees' Retirement Plan
Schedule of the Reporting Unit's Contributions
Fiscal Year (Amounts Determined as of 6/30)

	2015
Statutorily required contributions	\$ 853,353
Contributions in relation to statutorily required contributions	853,353
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 4,585,498
Contributions as a percentage of covered-employee payroll	18.61%

Bronson Community Schools
Michigan Public School Employees' Retirement Plan
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability
Last Fiscal Year (Amounts Determined as of 9/30)

	2014
Reporting unit's proportion of net pension liability (%)	0.05495%
Reporting unit's proportionate share of net pension liability	\$ 12,102,808
Reporting unit's covered-employee payroll	\$ 4,699,769
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	257.52%
Plan fiduciary net position as a percentage of total pension liability	66.20%

Bronson Community Schools
Michigan Public School Employees' Retirement Plan
Notes to Required Supplementary Information
Year Ended June 30, 2015

Changes of Benefit Terms: There were no changes of benefit terms in 2014.

Changes of Assumptions: There were no changes of benefit assumptions in 2014.

Other Supplemental Information

Bronson Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	<u>Food Service Fund</u>	<u>Sinking Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 77,346	\$ 265,079	\$ 342,425
Receivable from other governments	6,905	-	6,905
Inventories	5,113	-	5,113
Prepaid expenditures	40,000	-	40,000
Total assets	\$ 129,364	\$ 265,079	\$ 394,443
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 20,360	\$ -	\$ 20,360
Total liabilities	20,360	-	20,360
Fund Balances:			
Nonspendable:			
Inventories	5,113	-	5,113
Prepaid expenses	40,000	-	40,000
Restricted:			
Food services	63,891	-	63,891
Capital projects	-	265,079	265,079
Total fund balances	109,004	265,079	374,083
Total liabilities and fund balances	\$ 129,364	\$ 265,079	\$ 394,443

Bronson Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2015

	Food Service Fund	Sinking Fund	Total Nonmajor Governmental Funds
Revenues:			
Local sources	\$ 157,986	\$ 395,007	\$ 552,993
State sources	34,268	-	34,268
Federal sources	428,825	-	428,825
Investment earnings	-	38	38
Total revenues	<u>621,079</u>	<u>395,045</u>	<u>1,016,124</u>
Expenditures:			
Food service activities	601,737	-	601,737
Capital outlay	-	129,966	129,966
Total expenditures	<u>601,737</u>	<u>129,966</u>	<u>731,703</u>
Net Changes in Fund Balances	19,342	265,079	284,421
Fund Balances - Beginning of Year	<u>89,662</u>	<u>-</u>	<u>89,662</u>
Fund Balances - End of Year	<u>\$ 109,004</u>	<u>\$ 265,079</u>	<u>\$ 374,083</u>

Bronson Community Schools

Single Audit Report

Year Ended June 30, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise Bronson Community Schools' basic financial statements, and have issued our report thereon dated October 22, 2015.

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.

October 22, 2015



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, 2015. 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, 2015.

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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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

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.

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, 2015, and the related notes to the financial statements, which collectively comprise Bronson Community Schools' basic financial statements. We issued our report thereon dated October 22, 2015, 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.

October 22, 2015

Bronson Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

<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 (Deferred) Revenue 7/1/2014</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 (Deferred) Revenue 6/30/2015</u>
<u>U.S. Department of Agriculture</u>									
Child Nutrition Cluster:									
Passed through MI Department of Education:									
Non-cash Assistance (Commodities):									
National School Lunch Program - Regular	10.555		\$ 36,197	\$ -	\$ -	\$ -	\$ 36,197	\$ 36,197	\$ -
Cash Assistance:									
National School Lunch Program	10.555	141960	265,977	-	232,835	-	33,142	33,142	-
		141980	2,426	-	2,224	-	202	202	-
		151960	228,973	-	-	-	228,973	228,973	-
		151980	2,308	-	-	-	2,308	2,308	-
			<u>499,684</u>	<u>-</u>	<u>235,059</u>	<u>-</u>	<u>264,625</u>	<u>264,625</u>	<u>-</u>
School Breakfast Program	10.553	141970	118,009	-	103,288	-	14,721	14,721	-
		151970	104,812	-	-	-	104,812	104,812	-
			<u>222,821</u>	<u>-</u>	<u>103,288</u>	<u>-</u>	<u>119,533</u>	<u>119,533</u>	<u>-</u>
Summer Food Service Program	10.559	140900	6,409	1,534	1,534	-	6,409	4,875	-
		141900	662	158	158	-	662	504	-
		150900	2,802	-	-	-	-	2,802	2,802
		151900	289	-	-	-	-	289	289
			<u>10,162</u>	<u>1,692</u>	<u>1,692</u>	<u>-</u>	<u>7,071</u>	<u>8,470</u>	<u>3,091</u>
Total Cash Assistance			<u>732,667</u>	<u>1,692</u>	<u>340,039</u>	<u>-</u>	<u>391,229</u>	<u>392,628</u>	<u>3,091</u>
Total Child Nutrition Cluster			<u>768,864</u>	<u>1,692</u>	<u>340,039</u>	<u>-</u>	<u>427,426</u>	<u>428,825</u>	<u>3,091</u>
Total United States Department of Agriculture			<u>768,864</u>	<u>1,692</u>	<u>340,039</u>	<u>-</u>	<u>427,426</u>	<u>428,825</u>	<u>3,091</u>
<u>U.S. Department of Education:</u>									
Passed through MI Department of Education:									
Title I Part A	84.010	141530-1314	464,203	108,742	401,333	-	121,345	12,603	-
		151530-1415	382,965	-	-	-	321,603	371,533	49,930
			<u>847,168</u>	<u>108,742</u>	<u>401,333</u>	<u>-</u>	<u>442,948</u>	<u>384,136</u>	<u>49,930</u>
Title IIA	84.367	140520-1314	147,942	8,100	77,609	(752)	7,348	-	-
		150520-1415	155,828	-	-	-	51,008	64,214	13,206
			<u>303,770</u>	<u>8,100</u>	<u>77,609</u>	<u>(752)</u>	<u>58,356</u>	<u>64,214</u>	<u>13,206</u>
Title VIB	84.358	140660-1314	20,206	805	20,206	-	805	-	-
		150660-1415	20,156	-	-	-	17,775	19,725	1,950
			<u>40,362</u>	<u>805</u>	<u>20,206</u>	<u>-</u>	<u>18,580</u>	<u>19,725</u>	<u>1,950</u>
Total passed through MI Department of Education			<u>1,191,300</u>	<u>117,647</u>	<u>499,148</u>	<u>(752)</u>	<u>519,884</u>	<u>468,075</u>	<u>65,086</u>
Passed through Coldwater Schools:									
Title III Limited English	84.365	2013-2014	13,416	3,148	13,416	-	3,148	-	-
		2014-2015	6,931	-	-	-	6,931	6,931	-
			<u>20,347</u>	<u>3,148</u>	<u>13,416</u>	<u>-</u>	<u>10,079</u>	<u>6,931</u>	<u>-</u>
Total United States Department of Education			<u>1,211,647</u>	<u>120,795</u>	<u>512,564</u>	<u>(752)</u>	<u>529,963</u>	<u>475,006</u>	<u>65,086</u>
			<u>\$ 1,980,511</u>	<u>\$ 122,487</u>	<u>\$ 852,603</u>	<u>\$ (752)</u>	<u>\$ 957,389</u>	<u>\$ 903,831</u>	<u>\$ 68,177</u>

Bronson Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

	<u>Amount</u>
Revenue from Federal sources - per financial statements (includes all funds)	\$ 903,079
Correction of Title II expense incorrectly reported in prior year (cash not drawn, over accrued expense)	<u>752</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 903,831</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, 2015. 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, 2015

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s 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> _____ no
Noncompliance material to financial statements noted	_____	yes	_____ <u>X</u> _____ no

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.555/10.553/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	_____ <u>\$ 300,000</u> _____
Auditee qualified as low-risk	_____ <u>X</u> _____ yes _____ no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

2015-001 – 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: Two students out of a sample of ninety students selected for testing were incorrectly classified based on income: one student was recorded as eligible for reduced benefits and should have been free and one student was recorded as free and should have had reduced benefits.

Bronson Community Schools
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs (Continued)

2015-001 – Eligibility (Continued)

Cause and Effect: The District did not correctly process the applications for these students creating incorrect reporting of meals served for the free and reduced categories and thus, incorrect reimbursement requests.

Recommendation: The District should implement procedures to review applications and verify that students are properly classified between free, reduced, and full-pay eligibility.

Views of Responsible Officials and Planned Corrective Action: We have met with our food service management company and food service director and have implemented a review process to ensure applications are properly processed to determine correct eligibility for benefits.

Bronson Community Schools
Comments on Resolution of Findings from June 30, 2014
Single Audit Report

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None



September 9, 2015

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, 2015. Our report has not yet been issued, and is awaiting verification of pension plan information from the Office of Retirement Services (ORS) and the Attorney General. 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 22, 2015. 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. As described in Note 1 and Note 8 to the financial statements, Bronson Community Schools changed its accounting policies related to pension plans by adopting Statement of Governmental Accounting Standards (GASB) Statement No.68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* in the fiscal year ended June 30, 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities as well as Note 1. 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 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.

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

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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 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.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules, the Schedule of Reporting Unit's Contributions, and the Schedule of Reporting Unit's Proportionate Share of the Net Pension Liability 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.

We were engaged to report on the combining statements of nonmajor governmental funds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recommendations

Consideration should be given to internal controls as changes in personnel are implemented in the accounting/business services department.

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.

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.