BROWN CITY COMMUNITY SCHOOLS
BROWN CITY, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)
Year Ended June 30, 2017

TABLE OF CONTENTS

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants

Thomas B. Doran, CPA
Valerie J. Hartel, CPA
Jamie L. Peasley, CPA
…………………………
Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA

Terry L. Haske, CPA
Timothy D. Franzel
Laura J. Steffen, CPA
Angela M. Burnette, CPA
David A. Ondrajka, CPA
John M. Bungart, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Education
Brown City Community Schools
Brown City, Michigan 48416

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 Brown City Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Brown City Community Schools as of June 30, 2017, and the respective changes in financial position, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America

715 East Frank Street • Caro, MI 48723
989-673-3137 fax: 989-673-3375
1-800-234-8829

2956 Main Street • Marlette, MI 48453
989-635-7545 fax: 989-635-7547

6476 Main Street, Suite 1 • Cass City, MI 48726
989-872-3730 fax: 989-872-3978

www.atbdcpa.com email us at cpa@atbdcpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 out inquiries, the basic financial statements, and other knowledge we obtained during out 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 Brown City Community Schools' basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by _Government Auditing Standards_

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2017, on our consideration of Brown City 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Brown City Community School's 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 Brown City Community Schools' internal control over financial reporting and compliance.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

September 15, 2017

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

This section of Brown City Community Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

Brown City Community Schools' general fund balance increased by approximately $59,048 to a total of $2,121,194 as of June 30, 2017. The fund balance increase was primarily the result of continued monitoring of expenditures.

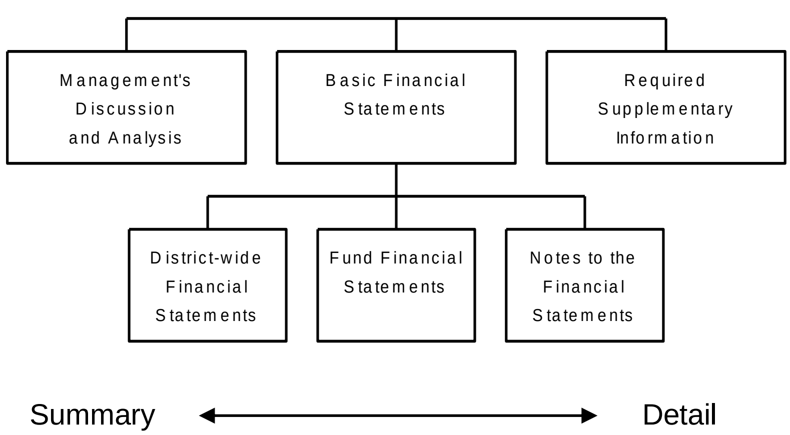
The food service fund balance decreased by approximately $(8,481) in the 2016-17 school year. This decrease was the result of a long term sick pay for an employee and an additional substitute wage being paid.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the basic financial statements, the required supplementary information, and additional supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. The figure below shows how the various parts of this annual report are arranged and related to one another. The basic financial statements include two kinds of statements that present different views of the District.

The two types of statements are district-wide and fund financial statements. The district-wide statement presents the information accumulative of all District activity. The fund financial statements look at the information for each fund independently.

Brown City Community Schools
Organization of Annual Financial Report



FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's *net position* – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the Statement of Net position, is one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position, as reported in the Statement of Activities, is one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to its students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the school, must also be considered when assessing the *overall health* of the School District.

District-Wide Statements

The School District's net position totaled $(6,913,705) and $(7,430,614) at June 30, 2017 and 2016, respectfully. Of these amounts, $430,194 and $378,304 were restricted. Restricted net position are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use those net position for day-to-day operations. The following is a summary of the District's net position at June 30, 2017 and 2016:

Assets	**2017**	**2016**
Current assets	$3,384,610	$3,327,603
Capital assets net of depreciation	10,468,564	10,725,448
Total assets	13,853,174	14,053,051
Deferred outflows of resources		
Deferred charge on refunding	44,204	47,252
Related to pension	1,464,911	1,293,913
Total deferred outflows of resources	1,509,115	1,341,165
Liabilities		
Current liabilities	1,204,125	1,280,916
Long-term liabilities	20,284,956	21,618,814
Total liabilities	21,489,081	22,442,730
Deferred inflows of resources related to pensions	786,913	382,100
Net position		
Net investment in capital assets	1,161,408	802,798
Restricted for debt service	430,194	378,304
Unrestricted	(8,505,307)	(8,611,716)
Total net position	$(6,913,705)	$(7,430,614)

The $(8,505,307) in unrestricted net position of governmental activities represents school district funds that have not been committed contractually or for debt obligations and are available for future use.

Total net position increased $516,909 in 2016-17. The major components of the change in the net position are as follows:

- Capital acquisitions

  Capital outlay for the year ended June 30, 2017 totaled $135,273
- Depreciation expense

  The provisions of GASB 34 require districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principals, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2017 the net increase in accumulated depreciation was $392,157.

- Debt repayment

  Repayment of debt decreases the District's long-term principal obligations and, as a result, the net position of the district increase.

  For more detailed information regarding debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-wide results of operations for the year ended June 30, 2017 is as follows:

	2017	**2016**
General revenue		
Property taxes levied for general operations	$526,675	$ 472,646
State of Michigan aid, unrestricted	5,755,029	5,881,112
Property Taxes levied for debt service	929,822	942,854
Other	116,100	113,103
Total general revenue	7,327,626	7,409,715
Program revenue		
Charges for services – local	202,338	190,718
Operating grants – federal and state	2,011,276	2,049,187
Total revenues	9,541,240	9,649,620
Expenses		
Instruction	4,636,746	4,731,841
Support services	3,159,396	3,256,387
Community services	3,968	10,196
Food services	523,237	510,063
Interest on long-term debt	309,097	405,130
Depreciation (unallocated)	392,157	396,546
Total expenses	9,024,331	9,310,163
Change in net position	516,909	339,457
Net position – July 1	(7,430,614)	(7,770,071)
Net position – June 30	$(6,913,705)	$(7,430,614)

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The financial condition of the governmental funds increased slightly, as indicated by the combined fund balance of $2,766,922 in 2016-17, compared to $2,668,062 in 2015-16.

In the General Fund, our principal operating fund, the fund balance increased $59,048. Our Special Revenue Funds were down, showing a ($8,481) decrease in fund balance compared to $5,321 increase in 2015-16.

The Debt Service Fund balance increased its fund balance by $48,293 compared to the decrease of ($15,522) in 2015-16. During the 2016-17 fiscal year, the Debt Service Fund millage rate was set at the prior year's rate of 6.7500 mills. Millage rates are determined annually to ensure the School District accumulates sufficient resources to pay annual bond issue-related debt service. The Debt Service Fund balances are reserved since they can only be used to pay debt service obligations.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments, actual State Aid per pupil and staffing changes are known. Currently, the most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2017, the School District amended the budget of this major governmental fund two times.

General Fund

In the general fund, the actual revenue was $8,096,416. This is above than the original budget estimate of $8,003,439 and below final amended budgeted amount of $8,097,353, a variance of 0.00011%.

The actual expenditures of the general fund were $8,035,705. This is above the original budget estimate of $8,016,634 and below the final amended budgeted amount of $8,039,514. The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

- A conservative approach in discretionary spending throughout the school year and another year of monitoring and conservation of energy/utilities.
- Personnel that were willing to take a pay freeze and make a change in health insurance coverage to reduce the cost of salary and fringes

A schedule of statements showing the School District's original and final budget amounts compared with amounts actually paid and received is in the required supplementary information section of this audit report.

General Fund revenues and other financing sources totaled $8,096,416 and total expenditures and other financing uses were $8,037,368 for the year. The fund balance was $2,121,194 at June 30, 2017.

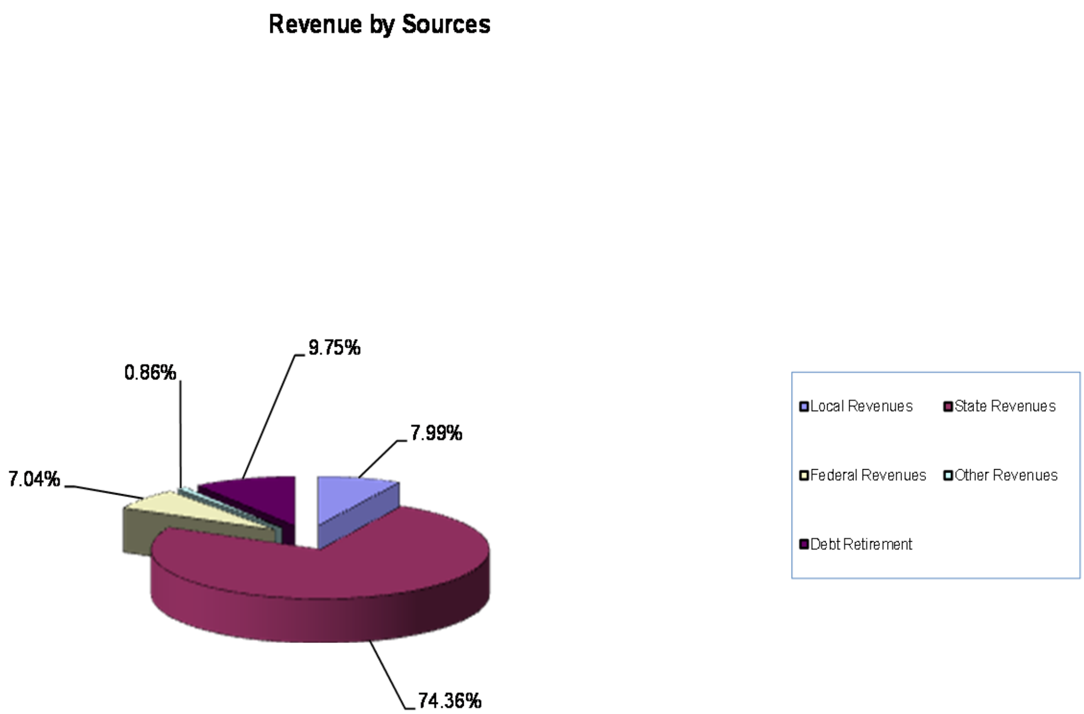
GOVERNMENTAL FUND EXPENDITURES

The following chart illustrates that general fund comprises approximately 85% of all the expenditures within the governmental funds of the School District. As of June 30, 2017 expenditures totaled $9,442,380 for all District programs. The ending fund balance for all funds was equal to $2,766,922.

	June 30, 2016	% of TOTAL
General Fund	$8,035,705	85.10%
Special Revenue Fund	524,425	5.56%
Debt Retirement Fund	882,250	9.34%
Total	$9,442,380	100.00%

TOTAL REVENUES

Revenues for all governmental funds totaled $9,541,240. The following graph illustrates the District revenues by source as a percentage of total revenue:



TOTAL REVENUES, (Continued)

Unrestricted State Aid
The district is predominately funded by State Aid. The State of Michigan per pupil base funding for the 2016-17 school year was $7,511 which was $120 more than the 2015-16 allocation of $7,391. State Aid blended membership was down a little from the previous year with counts of 848.26 and 874.38 in 2016-17 and 2015-16, respectively.

The school district also received $ 62 per pupil to offset the increase in retirement costs. Best Practices, Academic Progress and Equity Payment funding was eliminated for the 16-17 school year.

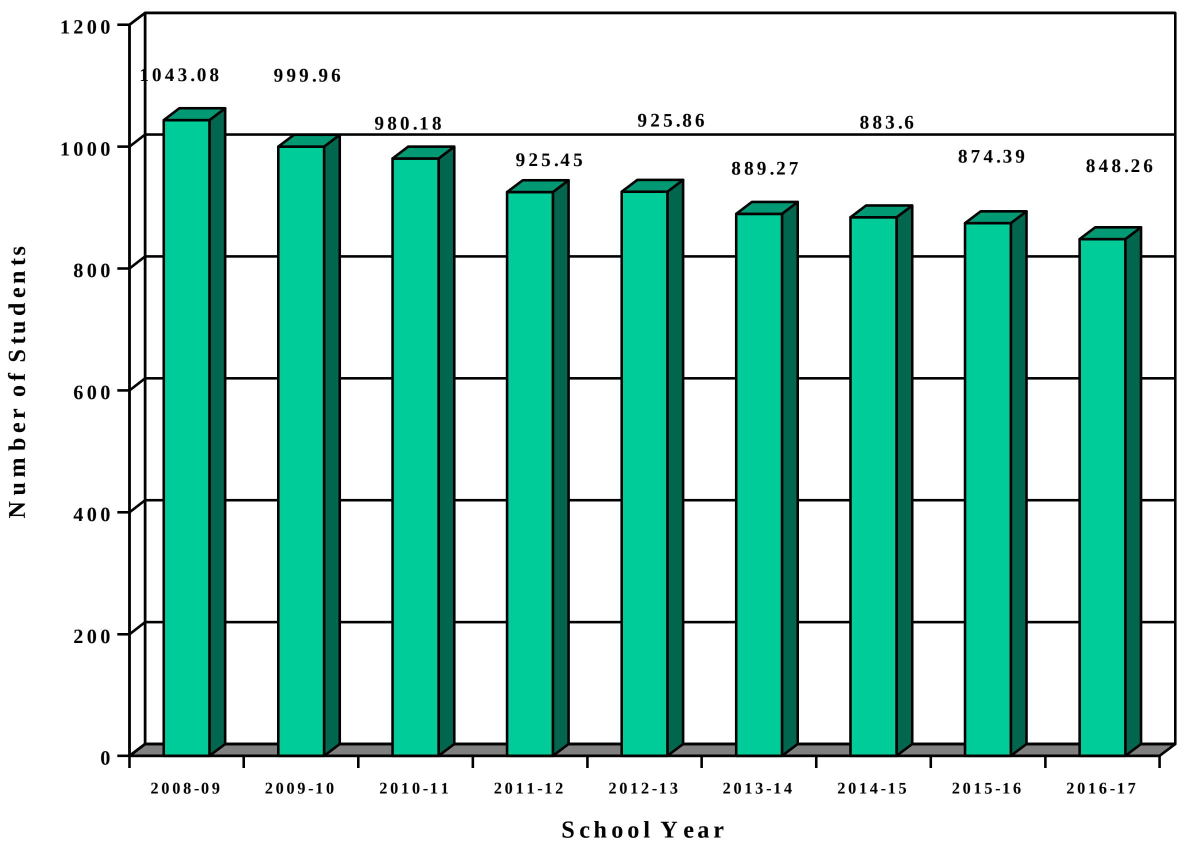
Property Taxes
The District was able to levy 18.000 mills, of property taxes on all Non-Homestead property located within the district for General Fund operations during the 2016-17 school year. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The 2016-17 Non-Homestead property tax levy totaled $526,675 which includes delinquent taxes received during the school year.

The District levied 6.750 mills of property taxes on all classes of property located within the district for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount collected for debt retirement in the 2016-17 year was $922,117.

ENROLLMENT

The enrollment of Brown City Community Schools totaled 848.26 students in 2016-17. This count is down slightly from the previous school year. The School District is located in Sanilac, Lapeer and St. Clair Counties and it considered a rural community. The School District's enrollment includes students K-12 and Alternative High School students, located in learning centers in Brown City and Croswell.

Enrollment over the last eight years is illustrated as follows:



Enrollment is important to the financial health of the School District because state funding is based on a per-pupil formula. For the fiscal year ended June 30, 2017, the gross per-pupil base allowance was $7,511.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the School District had $18,419,794 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, $7,951,230 dollars has been depreciated. Net book value totals $10,468,564. The district's buildings range in years of construction from 1954 to 2001. The majority of the buildings were either constructed or remodeled during the 2001 Bond Issue. The district is committed to the timely repairs and maintenance of its facilities. The district continues to upgrade their technology with new purchases, such as replacement computers. These purchases are generally under the District's capitalization threshold of $5,000 and are expensed accordingly.

	Governmental Activities
Land	$ 167,260
Land Improvements	877,838
Buildings and Additions	14,817,700
Machinery and Equipment	1,604,810
Vehicles & Buses	952,186
Total	$ 18,419,794

OUTSTANDING DEBT AT YEAR-END

At June 30, 2017 the School District had $8,285,000, in bonds outstanding as compared to $8,830,000 at the end of the previous year. The principal outstanding on these bonds consisted of the following:

Refunding Bonds	$ 8,285,000

The School District had a balance of $10,125 in operating leases for copiers.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School District's revenue is heavily dependent on enrollment, state funding, and thus, the health of the State of Michigan's School Aid Fund. The State periodically holds revenue consensus conferences to estimate its revenues. Based on the results of these conferences, the State determines whether they have sufficient funds to meet the per student allocation. When the 2017-18 budget was formulated, the State had set the base per pupil allocation at $7,631 for the school year, which $120 more per pupil than the previous school year.

The State's blending formula is 90% of September 2017 count and 10% February 2017 count. The district's blended count for the 2017-18 school year is projected to be down 31 students from the 2016-17 school year.

At the time the budget was developed the district had unsettled labor agreements with both union and non-union employees.

The 2017-18 budget, that was originally adopted in June 2017, included an excess of revenues over expenditures of $16,392. which would add to the District's fund equity.

The Brown City Community Schools continues to strive to use the school district's funds in a responsible and prudent manner that centers around pupil education. Our commitment to the community, parents, students and staff is to provide a safe and enriching environment to allow the best educational setting that is possible.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of Brown City Community Schools. If you should desire additional detailed financial program audits, they can be obtained by contacting the following person:

Sue Lange, Business Manager
Brown City Community Schools
4349 Second St. P.O. Box 160, Brown City, MI 48416-0160
Telephone – 810-346-4700   Fax – 810-346-3762
Email – slange@browncityschools.org

BASIC FINANCIAL STATEMENTS

BROWN CITY COMMUNITY SCHOOLS

STATEMENT OF NET POSITION

June 30, 2017

		GOVERNMENTAL ACTIVITIES
ASSETS		
Cash and cash equivalents	$	2,107,915
Accounts receivable		724
Intergovernmental receivable		1,245,195
Prepaid expenses		27,800
Inventories		2,976
Capital assets not being depreciated		167,260
Capital assets, net of accumulated depreciation		10,301,304
TOTAL ASSETS		13,853,174
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding, net of amortization		44,204
Related to pensions		1,464,911
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,509,115
LIABILITIES		
Accounts payable		10,859
Accrued interest		57,882
Accrued salaries and related items		422,691
Accrued retirement		169,969
Unearned revenue		14,169
Noncurrent liabilities:		
Due within one year		528,555
Due in more than one year		8,953,030
Net pension liability		11,331,926
TOTAL LIABILITIES		21,489,081
DEFERRED INFLOWS OF RESOURCES		
Related to pensions		444,988
State aid funding for pension		341,925
TOTAL DEFERRED INFLOWS OF RESOURCES		786,913
NET POSITION		
Net investment in capital assets		1,161,408
Restricted for debt service		430,194
Unrestricted		(8,505,307)
TOTAL NET POSITION	$	(6,913,705)

See notes to financial statements.

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Governmental Activities: Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	$ 4,636,746	$ 23,349	$ 1,145,622	$ (3,467,775)
Support services	3,159,396	39,381	490,981	(2,629,034)
Community services	3,698			(3,698)
Food services	523,237	139,608	374,673	(8,956)
Interest on long-term debt	309,097		-	(309,097)
Unallocated depreciation	392,157			(392,157)
Total governmental activities	$ 9,024,331	$ 202,338	$ 2,011,276	(6,810,717)
General revenues:				
Property taxes, levied for general purposes				526,675
Property taxes, levied for debt service				929,822
State sources				5,755,029
Investment revenue				1,103
Transfers from other districts				25,420
Miscellaneous				89,577
Total general revenues				7,327,626
Change in net position				516,909
Net position, beginning of year				(7,430,614)
Net position, end of year				$ (6,913,705)

See notes to financial statements.

BROWN CITY COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	2015 REFUNDING DEBT SERVICE	NONMAJOR GOVERNMENTAL FUND (FOOD SERVICE)	TOTAL GOVERNMENTAL FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,467,828	$ 488,076	$ 152,011	$ 2,107,915
Accounts receivable	724	-	-	724
Due from other governmental units	1,242,530		2,665	1,245,195
Prepaid expenditures	27,800			27,800
Inventories			2,976	2,976
TOTAL ASSETS	***$ 2,738,882***	***$ 488,076***	***$ 157,652***	***$ 3,384,610***
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	$ 10,859		-	$ 10,859
Accrued salaries and related items	422,691			422,691
Accrued retirement	169,969			169,969
Unearned revenue	14,169			14,169
TOTAL LIABILITIES	617,688	-	-	617,688
FUND BALANCES:				
Nonspendable:				
Prepaid items	27,800			27,800
Inventories			$ 2,976	2,976
Restricted:				
Food service			154,676	154,676
Debt retirement		$ 488,076		488,076
Assigned for compensated absences/buyouts	130,225			130,225
Assigned for building improvements	109,685			109,685
Unassigned	1,853,484			1,853,484
TOTAL FUND BALANCES	2,121,194	488,076	157,652	2,766,922
TOTAL LIABILITIES & FUND BALANCES	***$ 2,738,882***	***$ 488,076***	***$ 157,652***	***$ 3,384,610***

See notes to financial statements.

BROWN CITY COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total fund balances--governmental funds	$ 2,766,922
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows of resources-charges on refunding, net of amortization	44,204
Deferred outflows of resources-related to pensions	1,464,911
Deferred inflows of resources-related to pensions	(444,988)
Deferred inflows of resources-related to state pension funding	(341,925)
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of the capital assets is:	18,419,794
Accumulated depreciation is:	(7,951,230)
Long term liabilities are not due and payable in the current period and are not reported in the funds	
Long-term debt obligations	(9,351,360)
Compensated absences/buyouts	(130,225)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(57,882)
Net pension liability	(11,331,926)
Net Position of Governmental Activities	$ (6,913,705)

See notes to financial statements.

BROWN CITY COMMUNITY SCHOOLS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2017

	GENERAL FUND	2015 REFUNDING DEBT SERVICE	NONMAJOR GOVERNMENTAL FUND (FOOD SERVICE)	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Local sources				
Property taxes	$ 526,675	$ 922,117		$ 1,448,792
Tuition	3,450			3,450
Investment earnings	816	287		1,103
Food sales			$ 139,608	139,608
Other	91,480			91,480
Total local sources	622,421	922,404	139,608	1,684,433
State sources	7,073,551	7,705	21,228	7,102,484
Federal sources	318,081		353,445	671,526
Other transactions:				
Transfers from other districts	25,420			25,420
Refund of prior years expenditures	48,163			48,163
Miscellaneous	8,780	434		9,214
TOTAL REVENUES	8,096,416	930,543	514,281	9,541,240
EXPENDITURES:				
Instruction	4,679,000			4,679,000
Supporting services	3,280,319			3,280,319
Community services	3,698			3,698
Food service activities			524,425	524,425
Debt service:				
Principal repayment	45,000	500,000	-	545,000
Other charges	150	500		650
Interest payments	788	381,750	-	382,538
Capital outlay	26,750			26,750
TOTAL EXPENDITURES	8,035,705	882,250	524,425	9,442,380
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	60,711	48,293	(10,144)	98,860
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	-		1,663	1,663
Transfers to other funds	(1,663)		-	(1,663)
TOTAL OTHER FINANCING SOURCES (USES)	(1,663)	-	1,663	-
NET CHANGE IN FUND BALANCES	59,048	48,293	(8,481)	98,860
FUND BALANCES - BEGINNING OF YEAR	2,062,146	439,783	166,133	2,668,062
FUND BALANCES - END OF YEAR	$ 2,121,194	$ 488,076	$ 157,652	$ 2,766,922

See notes to financial statements.

BROWN CITY COMMUNITY SCHOOLS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2017

Total net change in fund balances--governmental funds	$ 98,860
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	(392,157)
Capital outlay	135,273
Net book value of assets disposed of	
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable at the beginning of the year	61,479
Accrued interest payable at the end of the year	(57,882)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items are as follows:	
Principal payments	545,000
Amortization of premium on bond	73,542
Amortization of deferred amount on bond refunding	(3,048)
Compensated absences/buyouts are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued absences/buyouts at the beginning of the year	146,503
Accrued absences/buyouts at the end of the year	(130,225)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Pension related items	381,489
Restricted revenue reported in governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.	
State aid funding for pension	(341,925)
Change in net position of governmental activities	$ 516,909

See notes to financial statements.

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS & LIABILITES
June 30, 2017

		AGENCY FUNDS
ASSETS		
Cash	$	124,710
TOTAL ASSETS	$	124,710
LIABILITIES		
Due to student organizations	$	124,710
TOTAL LIABILITIES	$	124,710

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

REPORTING ENTITY:

Brown City Community Schools (the "District") is governed by the Brown City Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements.

BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

While separate government-wide and fund financial statements are presented, they are interrelated. The government activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

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

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – government and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *2015 refunding debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

OTHER NON-MAJOR FUNDS:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government–wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:
The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles of generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events at the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District 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 and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital lease are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on the pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exception (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as an intergovernmental receivable.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measureable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

BUDGETARY INFORMATION:
Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if the have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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 (1968 PA 2). 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 original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

4. Transfers may be made for budgeted amounts between major expenditure 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. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended June 30, 2017. The District does not consider these amendments to be significant.

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

1. Cash and equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Certain investments are valued at fair value and determined by quoted market prices or by estimated fair values when quoted market prices are not available. 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 districts intend to hold the investment until maturity.

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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are valued at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	15 - 20 years
Buildings and additions	20 – 50 years
Machinery and equipment	5 – 20 years
Transportation equipment	5 – 10 years

5. Defined Benefit Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

6. Deferred outflows/inflows of resources

Deferred Outflows:
In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualifies for reporting in this category. They are a deferred charge on refunding and pension contributions reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows are recognized for pension related items. These amounts are expensed in the plan year in which it applies.

Deferred Inflows:
In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to reported as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

REVENUES AND EXPENDITURES/EXPENSES:

1. Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and 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 September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

FUND	MILLS
General Fund:	
Non-Principle Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	6.7500

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 – DEPOSITS AND INVESTMENTS:

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, the District did not have investments in commercial paper and corporate bonds.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, $2,120,969 of the District's bank balance of $2,370,969 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. However, the District's Bank has pledged $1,000,000 in an investment safekeeping account, held by the Federal Reserve Bank. The purpose of the pledged investment is to mitigate the exposure to custodial credit risk. The carrying value on the books for deposits at the end of the year was $2,232,625.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

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

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing and investment and would be based on the best information available.

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

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

The amounts as previously reported in Note 2:

Deposits - including fiduciary funds of $124,710	$ 2,232,625

The above amounts are reported in the financial statements as follows:

Cash - District wide	$	2,107,915
Cash - Fiduciary Funds		124,710
	$	2,232,625

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables at June 30, 2017 consist of the following:

Governmental Units:	
State aid	$1,226,015
Federal revenue	19,180
Total	$ 1,245,195

Amounts due from governmental units include amounts due from federal, state, and local sources for various projects and programs.

Because of the District’s favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 4 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	BALANCE July 1, 2016	ADDITIONS	DELETIONS	BALANCE June 30, 2017
Capital Assets Not Being Depreciated:				
Land	$ 167,260			$ 167,260
Capital Assets Being Depreciated:				
Land Improvements	851,088	$ 26,750		877,838
Building and Additions	14,817,700			14,817,700
Machinery and Equipment	1,561,437	43,373		1,604,810
Transportation Equipment	895,913	65,150	$ (8,877)	952,186
Subtotal	18,126,138	135,273	(8,877)	18,252,534
Accumulated Depreciation:				
Land Improvements	(543,701)	(36,721)		(580,422)
Building and Additions	(4,990,370)	(277,013)		(5,267,383)
Machinery and Equipment	(1,381,350)	(33,768)		(1,415,118)
Transportation Equipment	(652,529)	(44,655)	8,877	(688,307)
Subtotal	(7,567,950)	(392,157)	8,877	(7,951,230)
Net Capital Assets Being Depreciated	10,558,188	(256,884)	-	10,301,304
Net Governmental Capital Assets	$ 10,725,448	$ (256,884)	$ -	$ 10,468,564

The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - LONG-TERM DEBT:

The District issues general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	Accumulated Compensated Absences/Buyouts	General Obligation Bonds	Total
Balance, July 1, 2016	$ 146,503	$ 9,969,902	$ 10,116,405
Additions			-
Deletions	(16,278)	(618,542)	(634,820)
Balance, June 30, 2017	130,225	9,351,360	9,481,585
Due within one year	(8,555)	(520,000)	(528,555)
Due in more than one year	$ 121,670	$ 8,831,360	$ 8,953,030

Long-term obligation debt at June 30, 2017 is comprised of the following:

2015 Bond Refunding	$ 8,285,000
Plus: Premium on bond refunding	1,066,360
Total general obligation debt	9,351,360
Accumulated compensated absences/buyouts	130,225
Total long-term debt	$ 9,481,585

Interest expense (all funds) for the year ended June 30, 2017 was $382,538.

The District has defeased certain obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017 $17,940,000 of bonds outstanding are considered defeased.

On January 13, 2015, the District issued refunding bonds of $9,270,000 in general obligation bonds with interest rates from 3% to 5% to advance refund $10,235,000 of outstanding 2005 and 2006 refunding bonds.

DEBT SERVICE REQUIREMENTS:
The annual requirements to amortize long-term debt outstanding as of June 30, 2017 are as follows:

YEAR ENDED JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2018	$ 520,000	$ 361,750	$ 881,750
2019	540,000	340,950	880,950
2020	565,000	313,950	878,950
2021	585,000	285,700	870,700
2022	580,000	274,000	854,000
2023-2027	2,975,000	1,032,126	4,007,126
2028-2031	2,520,000	315,000	2,835,000
	8,285,000	2,923,476	11,208,476
Premium on bond refunding	1,066,360		1,066,360
Accum compensated absences/buyouts	130,225		130,225
	$ 9,481,585	$ 2,923,476	$ 12,405,061

A fund balance amount of $488,076 is available in the debt service fund to service the general obligation debt.

The District has early retirement incentive arrangements with certain employees. The agreement provides for a total payment to each individual of $20,000, which is outstanding at June 30, 2017. There is currently one employee entitled to these future payments. The liability has been recorded at the face amount as the discounted present value approximates face amount of the liability.

NOTE 6 - OPERATING LEASES:

The School District leases equipment under an operating lease agreement that expires June 30, 2019. Lease expense amounted to $8,939. At June 30, 2017, future lease payments under such leases are as follows:

June 30, 2018	$8,939
June 30, 2019	1,186
Total	$10,125

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:

There were no interfund payable and receivables at June 30, 2017.

NOTE 8 - DEFINED BENEFIT PLAN AND POSTEMPLOYMENT BENEFITS:

Plan Description - The Michigan Public School Employees' Retirement System (MPSERS) 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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/mpsers-cafr.

The System is administrated by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and 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.

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

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

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

Pension Reform 2010 - On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012 - On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

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

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

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

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

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

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

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

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

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

Member Contributions

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

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statue 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. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 20-year period for fiscal year 2016.

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

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately $1,043,000, with $1,032,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MEPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. (72.88% for pension and 27.12% for OPEB)

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

Pension Liabilities

At June 30, 2017, the District reported a liability of $11,331,926 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was .04542 and .04751 percent.

MEPSERS (Plan) Non-university employers:	September 30, 2016		September 30, 2015	
Total Pension Liability	$	67,917,445,078	$	66,312,041,902
Plan Fiduciary Net Position	$	42,968,263,308	$	41,887,015,147
Net Pension Liability	$	24,949,181,770	$	24,425,026,755
Proportionate Share		0.04542		0.04751
Net Pension Liability for the District	$	11,331,926	$	11,605,305

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

For the year ended June 30, 2017, the District recognized pension expense of $963,370.

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Changes of assumptions	$	177,166		
Net difference between projected and actual earnings on pension plan investments		188,337		
Net difference between expected and actual experience		141,226	$	26,857
Changes in proportion and differences between employer contributions and proportionate share of contributions		1,076		418,131
Reporting unit contributions subsequent to the measurement date		957,106		
Total	$	1,464,911	$	444,988

$957,106 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2017	$ (27,466)
2018	(42,316)
2019	157,706
2020	(25,107)

Actuarial Assumptions

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

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

Inflation - 2.5%

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projections scale BB for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of en 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 long-term expected rate of return on pension plan investments - The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

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

Discount rate - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 % (7% for 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 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.0% - 7.0%)	Discount Rate (7.0% - 8.0%)	1% Increase (8.0% - 9.0%)
Reporting Unit's proportionate share of the net pension liability	$14,592,668	$11,331,926	$8,582,807

Pension Plan Fiduciary Net Position

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

Payable to Pension Plus Plan

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

Other Information

Discount Rate - Assumed Rate of Return

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

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

Pension Reform 2017

Senate Bill 401 amends the Public Schools Employees Retirement Act (PA 300 of 1980, as amended)

The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February1, 2013.

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

Employer Contributions

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

The District postemployment healthcare contributions to MPSERS for the year ended June 30, 2017, 2016 and 2015 were approximately $350,000, $388,000 and $510,000.

NOTE 9 - RISK MANAGEMENT:

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subjected to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of $500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2017 or any of the prior three years.

NOTE 10- TRANSFERS:

The general fund transferred $1,663 to the food service fund to reimburse for negative balances.

NOTE 11 – TAX ABATEMENT:

Effective for the year ended June 30, 2017 the District is required to disclose significant tax abatements as a required by GASB statement 77 (Tax abatements).

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes abated
City of Brown City	$ 2,113
Burnside Township	1,010
	$ 3,123

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

NOTE 12 – UPCOMING ACCOUNTING PRONOUNCEMENT:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

BROWN CITY COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Local sources				
Property taxes	$ 471,960	$ 526,676	$ 526,675	$ (1)
Tuition	365	3,450	3,450	-
Investment earnings	1,019	813	816	3
Other	77,477	91,334	91,480	146
Total local sources	550,821	622,273	622,421	148
State sources	7,100,182	7,073,781	7,073,551	(230)
Federal sources	315,886	319,044	318,081	(963)
Other transactions:				
Transfers from other districts	15,000	25,420	25,420	-
Refund of prior years expenditures	12,300	48,163	48,163	-
Miscellaneous	9,250	8,672	8,780	108
TOTAL REVENUES	8,003,439	8,097,353	8,096,416	(937)
EXPENDITURES				
Instruction				
Basic programs	3,898,332	3,841,501	3,841,269	232
Added needs	881,193	840,052	837,731	2,321
Total Instruction	4,779,525	4,681,553	4,679,000	2,553
Supporting services				
Pupil services	371,654	359,021	358,615	406
Instructional staff	349,736	351,500	351,499	1
General administration	298,612	292,081	291,985	96
School administration	518,562	501,692	501,558	134
Business services	118,511	118,215	118,118	97
Operations and maintenance	847,898	833,127	833,047	80
Pupil transportation	383,580	426,436	426,355	81
Central services	97,549	159,575	159,575	-
Athletic services	195,133	239,928	239,567	361
Total Supporting Services	3,181,235	3,281,575	3,280,319	1,256
Community services	9,936	3,698	3,698	-
Debt service				
Principal retirement	45,000	45,000	45,000	-
Interest payments	788	788	788	-
Other fiscal charges	150	150	150	-
Total Debt Service	45,938	45,938	45,938	-
Capital outlay	-	26,750	26,750	-
TOTAL EXPENDITURES	8,016,634	8,039,514	8,035,705	3,809
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,195)	57,839	60,711	2,872
OTHER FINANCING SOURCES (USES):				
Fund transfers in	20,000	-	-	-
Fund transfers out	(1,500)	(1,766)	(1,663)	103
TOTAL OTHER FINANCING SOURCES (USES)	18,500	(1,766)	(1,663)	103
NET CHANGE IN FUND BALANCE	$ 5,305	$ 56,073	59,048	$ 2,975
FUND BALANCE - BEGINNING OF YEAR			2,062,146	
FUND BALANCE - END OF YEAR			$2,121,194	

BROWN CITY COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIRMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)

	2016	2015	2014
Reporting unit's proportion of net pension liability (%)	0.04542%	0.04751%	0.04767%
Reporting unit's proportionate share of net pension liability	$ 11,331,926	$ 11,605,305	$ 10,499,316
Reporting unit's covered-employee payroll	$ 3,891,616	$ 4,038,984	$ 4,130,824
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	291.19%	287.33%	254.17%
Plan fiduciary net position as a percentage of total net pension liability (Non-university employers)	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is complied, the District's present information for those years for which information is available.

BROWN CITY COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 6/30 OF EACH FISCAL YEAR END)

	2017	2016	2015
Statutorily required contributions	$ 1,031,774	$ 1,072,936	$ 879,421
Contributions in relation to statutorily required contributions	1,031,774	1,072,936	879,421
Contribution deficiency (excess)	$ -	$ -	$ -
Reporting unit's covered-employee payroll	$ 3,889,269	$ 3,875,277	$ 4,090,462
Contributions as a percentage of covered-employee payroll	26.53%	27.69%	21.50%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available

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

Changes of assumptions: There were no changes of benefit assumption 2016.

ADDITIONAL SUPPLEMENTARY INFORMATION

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT- 2015 REFUNDING
June 30, 2017

Refunding serial bonds in the amount of $9,270,000 were issued January 13, 2015 to refinance the 2005 and 2006 refunding bonds (due to mature in the years 2016-2031).

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments May 1	Semi-Annual Interest Payments November 1	Total Fiscal Year Requirements
4.00%	2018	$ 520,000	$ 180,875	$ 180,875	$ 881,750
5.00%	2019	540,000	170,475	170,475	880,950
5.00%	2020	565,000	156,975	156,975	878,950
2.00%	2021	585,000	142,850	142,850	870,700
5.00%	2022	580,000	137,000	137,000	854,000
2.50%	2023	595,000	122,500	122,500	840,000
2.50%	2024	595,000	115,063	115,063	825,125
5.00%	2025	590,000	107,625	107,625	805,250
5.00%	2026	595,000	92,875	92,875	780,750
5.00%	2027	600,000	78,000	78,000	756,000
5.00%	2028	630,000	63,000	63,000	756,000
5.00%	2029	630,000	47,250	47,250	724,500
5.00%	2030	630,000	31,500	31,500	693,000
5.00%	2031	630,000	15,750	15,750	661,500
		$ 8,285,000	$ 1,461,738	$ 1,461,738	$ 11,208,475

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants

Thomas B. Doran, CPA
Valerie J. Hartel, CPA
Jamie L. Peasley, CPA
…………………………
Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA

Terry L. Haske, CPA
Timothy D. Franzel
Laura J. Steffen, CPA
Angela M. Burnette, CPA
David A. Ondrajka, CPA
John M. Bungart, CPA

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

Board of Education
Brown City Community Schools
Brown City, Michigan 48416

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 15, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Brown City 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 Brown City Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Brown City 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 on 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

715 East Frank Street • Caro, MI 48723
989-673-3137 fax: 989-673-3375
1-800-234-8829

2956 Main Street • Marlette, MI 48453
989-635-7545 fax: 989-635-7547

6476 Main Street, Suite 1 • Cass City, MI 48726
989-872-3730 fax: 989-872-3978

www.atbdcpa.com email us at cpa@atbdcpa.com

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.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

September 15, 2017

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

To the Members of the Board
Brown City Community Schools

We have audited the financial statements of ***Brown City Community Schools*** for the year ended ***June 30, 2017*** and have issued our report thereon dated September 16, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of ***Brown City Community Schools***. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether ***Brown City Community Schools'*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our test was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by ***Brown City Community Schools*** are described in Note 1 to the financial statements. We noted no transactions entered into by ***Brown City Community Schools*** during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period that when the transaction occured.

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 estimate affecting the financial statements was:

Estimates have been used to calculate the net pension liability.

Estimates have been used in calculating the liability for employee compensated absences.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

715 East Frank Street • Caro, MI 48723
989-673-3137 fax: 989-673-3375
1-800-234-8829

2956 Main Street • Marlette, MI 48453
989-635-7545 fax: 989-635-7547

6476 Main Street, Suite 1 • Cass City, MI 48726
989-872-3730 fax: 989-872-3978

www.atbdcpa.com email us at cpa@atbdcpa.com

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements were material, either individually of in the aggregate, to the 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 September 15, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as ***Brown City Community Schools'*** 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 Management's Discussion & Analysis and the Budgetary Comparison Schedule, and the Schedules of Reporting Unit's Contributions and Proportionate Share of the Net Pension Liability, 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, other knowledge we obtained during the 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 Additional Supplementary Information, 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 this information to determine that the information complies with accounting principles general 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 additional supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Members of the Board and management of ***Brown City Community Schools*** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, Michigan

September 15, 2017