

Beal City Public Schools

Financial Statements

June 30, 2015

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Beal City Public Schools
Members of the Board of Education and Administration
June 30, 2015

Members of the Board of Education

Denise McBride – President

Rod Cole – Vice President

Kari Rojas – Secretary

Robert Pasch – Treasurer

Curt Gottschalk – Trustee

Jane Finnerty – Trustee

Ron Neyer – Trustee

Administration

William Chilman – Superintendent

Jeff Jackson – High School Principal

Jason Wolf – Elementary Principal

Julie Freeze – Business Manager

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools

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 Beal City Public Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2015, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, and schedule of the school district's contributions, 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beal City Public Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Beal City Public Schools' basic financial statements as of and for the year ended June 30, 2014, which are not presented with the accompanying basic financial statements. In our report dated September 11, 2014, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Beal City Public Schools' basic financial statements as a whole. The 2014 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 information in the comparative supplementary schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 on our consideration of Beal City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beal City Public Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, MI
October 19, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Beal City Public Schools (the District) management's discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address financial challenges in the years to come. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2015.

The following is an outline of how this financial report is presented.

Section 3
MD&A

Management's Discussion and Analysis
(required supplementary information)

Section 4
Basic Financial Statements

District – Wide Financial Statements
Fund Financial Statements
Internal Service Fund
Fiduciary Fund
Notes to the Financial Statements

Section 5
Required Supplementary Information

Budgetary Comparison Schedule
Schedule of the School District's Proportionate Share of the
Net Pension Liability
Schedule of the School District's Contributions Michigan
Public School Employees Retirement Plan

Section 6
Other Supplementary Information

Combining Balance Sheets
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances
Comparative Balance Sheet
Schedule of Revenues Compared to Budget
Schedule of Expenses Compared to Budget
Schedule of Outstanding Bonded Indebtedness

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

As noted above, Section 4 contains two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements in accordance with GASB 34.

District Wide Financial Statements

The District wide financial statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. To be consistent with full accrual basis accounting, all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

The fund financial statements are reported using the modified accrual method of accounting. Under this method of accounting, revenues are recorded when received or when they are measurable, and expenditures are accounted for in the period those goods and services were used to provide school programs. In addition, capital asset purchases are expensed in totality in the year purchased and not recorded as an asset. Debt payments are recorded as expenditures when they are paid and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Funds, Capital Project Fund, Internal Service Fund and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived primarily from property taxes, state and federal distributions and grants. The Special Revenue Fund is used to record the activities of the food service operation. The Debt Retirement Funds are used to record the funding and payment of principal and interest on bonded debt. The Capital Project Fund is used to record the funding and payment of building construction and major site improvements. The Internal Service Fund is used to finance services provided to other funds of the School District on a cost-reimbursement basis. The Internal Service Fund accounts for medical, dental and vision insurance coverage. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Financial Analysis of the District as a Whole

Summary of Statement of Net Position

	2014	2015
Assets		
Current assets	\$2,449,673	\$2,684,913
Capital assets	10,760,242	10,977,463
less accumulated depreciation	<u>(5,340,458)</u>	<u>(5,686,871)</u>
Capital Assets, net book value	<u>5,419,784</u>	<u>5,290,592</u>
 Total assets	 7,869,457	 7,975,505
 Deferred Outflows of Resources	 <u>107,467</u>	 <u>995,243</u>
 Total assets and deferred outflows of resources	 <u>7,976,924</u>	 <u>8,970,748</u>
 Liabilities		
Current liabilities	1,146,310	1,163,837
Long-term liabilities	<u>3,889,188</u>	<u>11,154,966</u>
 Total liabilities	 5,035,498	 12,318,803
 Deferred Inflows of Resources	 <u>-</u>	 <u>862,397</u>
 Total liabilities and deferred inflows of resources	 <u>5,035,498</u>	 <u>13,181,200</u>
 Net Position		
Net investment in capital assets	1,381,039	1,725,202
Restricted for debt service	73,991	97,003
Restricted for food service	61,622	83,019
Restricted for capital projects	165,144	-
Restricted for grants	16,991	101,914
Unrestricted (deficit)	<u>1,242,639</u>	<u>(6,217,590)</u>
 Total net position (deficit)	 <u>\$2,941,426</u>	 <u>(\$4,210,452)</u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Summary of the Statement of Net Position

As indicated by the statement above, total net position is (\$4,210,452), a deficit caused by the implementation of the Governmental Accounting Standards Board's (GASB) Statement 68 which is discussed later on. Net position can be separated into the following categories: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets is a combination of capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$10,977,463 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$5,686,871. Many capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters and is recorded as a liability in the statement of net position.

Net investment in capital assets is \$1,725,202. Net position restricted for debt service is \$97,003 and consists of cash balances in the debt service funds. Net position restricted for grants is \$101,914 and consists of tribal grant dollars awarded but not yet spent as well as a grant from the Morey Foundation not fully expended. Net position restricted for food service is \$83,019 and consists of resources available to the food service operations. Net position restricted for capital projects has been removed from the statement of net position as the funds have been set aside for capital projects by the Board of Education, and are not restricted by external parties. The remaining (\$6,217,590) of net position is an unrestricted deficit. The unrestricted amount is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Summary of Statement of Activities

	2014	2015
Revenues		
Charges for Services	\$ 222,206	\$ 239,308
Operating Capital Grants and Contributions	1,065,321	1,358,911
General Revenues	5,605,324	5,742,861
Total revenue	6,892,851	7,341,080
Expenses		
Instruction	3,928,200	3,991,890
Supporting services	2,480,083	2,252,580
Food services	288,504	268,620
Community Services	6,613	6,362
Interest on long-term debt	165,842	107,371
Total expenses	6,869,242	6,626,823
Increase in net position	23,609	714,257
Net position beginning	2,917,817	2,941,426
Prior period adjustment*	-	(7,866,135)
Net position beginning, restated (deficit)	2,917,817	(4,924,709)
Net position ending (deficit)	\$ 2,941,426	\$ (4,210,452)

*Net position was restated due to the implementation of GASB 68.

The total increase in revenue from 2013/2014 to 2014/2015 at the District wide level was \$448,229. The majority of that increase was in the General Fund where state aid and operating grants & contributions saw an increase in revenues over last year. State aid increased due to an increase in the foundation allowance and an equity payment of \$125 per student. Operating grants & contributions increased due to the increase in payments from the Michigan Public Schools Retirement System for the UAAL rate stabilization payments.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

The total decrease in expenses from 2013/2014 to 2014/2015 at the District wide level was \$242,419. The majority of this decrease was in the support services area of the General Fund. The support services expenses decrease was primarily due to change in personnel during the 2013/2014 school year. During 2013/2014 we had an overlap of personnel in the maintenance/transportation area as we had the replacement for our maintenance/transportation director start prior to July 1st to allow him time to work with the retiring supervisor to gain knowledge of the district's operations. During the 2014/2015 there was no overlap in wages and benefits for this position. Bus repair expenses also decreased in the 2014/2015 school year. During the 2013/2014 school year the district utilized a new facility for repair services as the old one was no longer available. The new repair service seemed to find more issues with the buses and more necessary repairs. We believe the new repair facility made sure each of our buses were fixed properly the first time they were taken to the new facility in 2013/2014. Therefore, the total bus repair expenses decreased in 2014/2015 as the repair facility was no longer fixing issues that had not been taken care of previously.

Revenues

Local revenues are primarily made up of property taxes to fund operating expenses and retire debt of previous bond issues. Local revenues also include grant awards from the Saginaw Chippewa Indian Tribe in the amount of \$172,898. The tribe was extremely generous to the district this year. Other sources of local revenue include fees and charges for services such as hot lunch, athletic gate receipts, sports participation fees and driver's education tuition.

State revenues account for the majority of the District's revenues and consist primarily of the per student foundation allowance. State revenues made up over 85% of the District's general fund revenues in 2014/2015. This ties the District directly to the overall economy of the State of Michigan.

Federal sources include Title grants in the General Fund and monies for the Food Service Fund. Federal revenues totaled less than \$500,000 alleviating the need for a single audit of federal funds.

Interdistrict sources of revenue consist of the County special education tax and the vocational education tax collected and distributed by the local Intermediate School District.

Property Taxes

A major portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Funds. Property tax revenue totaled \$829,369. This amount was obtained through a combination of two voter approved millage levies totaling 18 mills on the taxable value of non-homestead properties and 6 mills on the taxable value of commercial personal property for the District's operation and a voter approved 7 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments of bond issues. Tax revenues saw an increase in 2014/2015. We expected this increase as taxable values increased in 2014 with a positive growth percentage. Taxable values determine the amount of local tax income for the operating revenues of the General Fund, and also determine the Debt Retirement Funds revenue generated each year. While the State of Michigan will make up the shortfall in operating revenue in the General Fund, the Debt Retirement Fund is entirely dependent on the 7 mills allocated on taxable values to generate the funds necessary to pay off the districts long term debt. Fortunately, taxable values have increased for the last couple of years which is demonstrated in the following table of taxable value history.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Year	Taxable Value	Growth
2009	81,878,623	4.68%
2010	81,673,543	(0.25%)
2011	81,544,258	(0.16%)
2012	82,561,107	1.25%
2013	81,046,450	(1.83%)
2014	82,930,946	2.33%
2015	85,472,686	3.06%

State Aid Foundation Allowance

A significant portion of state funding to the District is received through the foundation allowance. The foundation allowance is funding from the state based on student enrollment. Student enrollment is blended at 90% of current year October count and 10% of the subsequent February count. The blended enrollment of Beal City Public Schools for 2014/2015 was 711.5 students, an increase of 4.35 from the 2013/2014 student enrollment of 707.15. The State of Michigan establishes per student foundation allowance on an annual basis.

Capital Assets and Long-term Debt

Capital Assets

On June 30, 2015 the District had \$5,290,592 invested in a broad range of capital assets as illustrated below:

Land	\$187,593
Buildings and additions	7,241,226
Site improvements	1,763,938
Equipment and furniture	626,459
Buses and other vehicles	768,025
Fiber optic network	<u>390,222</u>
Subtotal	10,977,463
Less accumulated depreciation	<u>5,686,871</u>
Net capital assets	<u>\$ 5,290,592</u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Long-term Debt

At the end of the current fiscal year, the Beal City Public School district had total general obligation bonded debt outstanding of \$3,614,000. The general obligation bonded debt outstanding consists of three bond issues. The 2012 refunding issue of the 2002 bond issue for the sports complex, the 2014 refunding issue of the 1996 issue for the addition to the high school and the 2012 bond issue to pay off the school bond loan fund. Other long term debt includes, compensated absences, retirement incentives, and a capital lease of copy machine equipment. Total outstanding long term debt of the district at the end of the current year is \$3,853,427. Both the compensated absences and the retirement incentives are estimates of potential costs. Teachers are eligible for a retirement incentive of \$9,000 if they retire from the MPERS the first year they are eligible to retire. The district has estimated the likelihood of a teacher qualifying for this incentive and multiplied the likelihood by the total available benefit of \$9,000. Compensated absences consist of termination pay, accrued sick time benefits and accrued vacation and personal time. The long term debt is estimated on the premise that all staff will qualify for a payout of leave time when they end their employment with the district.

General Fund Budgetary Highlights

Original vs. Actual Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

The district amended its budget twice during the 2014/2015 school year. For the fiscal year 2014/2015, the budget was amended in March of 2015 and June of 2015.

General Fund Revenues Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2014/2015	\$6,049,456	\$6,468,075	\$6,468,678	\$603

The District's actual General Fund revenues were more than the final budget by \$603. The majority of this variance is due to tournament gate receipts earned at the end of the season.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

General Fund Expenditures Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2014/2015	\$6,352,696	\$6,463,757	\$6,266,260	\$(197,497)

The District's General Fund expenditures were less than the final expenditure budget by \$197,497. Tribal grants received from the Saginaw Chippewa Indian Tribe make up a portion of the discrepancy in budgeted to actual expenditures. Many tribal grants were budgeted for, but not spent in the 2014/2015 fiscal year. Those tribal grant budget items remaining at the end of the 2014/2015 fiscal year will be carried over to the 2015/2016 budget. The expenditures in most of the function areas were less than the final expenditure budget. Individually they were not significant.

Excess of Expenditures over appropriations

The School District did not have significant expenditure budget variances.

Adoption of New Accounting Standard

Effective for the year ended June 30, 2015, the District adopted new accounting guidance, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

The District recorded net pension liability of \$7,800,937 as of June 30, 2015, and was required to restate the beginning net position on the statement of activities.

This pension liability was calculated from information provided by the Michigan Public Schools Employee Retirement System. It should be noted that district officials and the Board of Education have no control over the amount of the pension liability.

Economic Factors and Next Year's Budgets and Rates

The minimum foundation allowance for 2015/2016 has been set at \$7,531 per student. Equity payments are now a part of the foundation allowance. The "Best Practices" incentive has been eliminated for the 2015/2016 year. The State has appropriated additional funds to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) to maintain the UAAL cap at 20.96%. While the district will receive an increase in the UAAL payment the district will be required to make monthly payments to the Office of Retirement Services equaling the amount of UAAL revenue received.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Under the direction of our State Governor, Mr. Rick Snyder, we have seen a number of education reform laws pass in the last two years. It is easy to get the feeling that educators are being attacked by our republican lead legislature. Many of the laws passed in the last two years seem to be more about punishing educators, and educator unions in particular, as they do about improving education in the State of Michigan.

Two of those educational reforms that will have a huge impact on the world of education and our school district's budget are online education and dual enrollment. In our school district these reforms have added to the budget as we are required to pay for the online education and dual enrollment without the ability to reduce staff so they have only added to the problems of educational finance in our school district.

The State legislator passed a retirement reform bill in 2012 to try to ensure that the Michigan Public School Retirement System will be sustainable for years to come. The reforms affected all current, retired, and future school personnel. Retirees saw a decrease in the amount of insurance premium subsidy they received from the Michigan Public Schools Retirement System. New hires will no longer be offered an insurance premium subsidy upon retirement and all current public school employees in the State of Michigan were required to make choices about the amount they will contribute to their retirement benefits and the amount they will receive upon retirement. The reforms have complicated the reporting of retirement benefits as there are now multiple retirement scenarios an employee may fall under. In addition, the Office of Retirement Services is still struggling with online reporting. When the retirement reforms went into place in 2012 the web reporting system was not yet capable of calculating all of the various retirement possibilities correctly. We are still waiting for minor adjustments to retirement reports from 2012.

The legislature has agreed to limit the unfunded liability amount of the retirement rate to 20.96%. While this should help keep the cost of retirement down, there is the possibility that it will decrease other funding provided to public schools. The legislature only has so much money to work with. If they use dollars to keep the retirement rate down, they will have to make up for that use of dollars somewhere else in the budget. So while the retirement rate may be more stable, other funding may be decreased to make up for it.

Mr. William C. Chilman IV is now starting his ninth year as the Superintendent of Beal City Public Schools. Mr. Chilman believes the three most important jobs a Superintendent has are to first and for most, improve student achievement. Secondly, during these financially difficult times, maintain the district's fiscal integrity, which is becoming even more challenging with ongoing changes at the state level. Third, but not least of all, promote the school district and provide positive school and community relations throughout the region. These three jobs have become part of our three board goals, so the board members and Mr. Chilman are working together as a team.

Beal City has two mottos that we live by. One is "Educational Teamwork Today Equals Educational Excellence Tomorrow". Our staff, students, parents and the community work together to create an environment where all parties can achieve excellence. The second motto is "a BIG education in a small school environment". Again, we all work hard each day to balance the financial part of education with the educational opportunities we provide to our students, and we are getting it done with true success. Beal City Public Schools continues to be recognized in the region and around the state as an educational leader academically, artistically, and athletically.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

The Beal City Board of Education and the Beal City Education Association (BCEA) settled a three year contract in September of 2013. Teachers will see small % increases each year and steps in the first and third year of the contract. The teachers have moved back to MESSA insurance. Beginning January of 2014 the teaching staff was given the option of MESSA choices II or the MESSA ABC plan which is a high deductible insurance plan with a health saving component. The remainder of the staff also moved to MESSA on July 1, 2014. Our insurance representative did not even give us the renewal rates for ASR as he knew they were not feasible. He presented a McClaren health plan that the district considered. After analyzing the risks and rewards of the McClaren plan and MESSA's plan it was decided that MESSA was the better option for our employees. Both the MESSA Choices II plan and the MESSA ABC plan exceed the allowable cap established by our State legislature so all employees will be contributing to the cost of their health insurance. Those who receive dental and vision benefits will be paying 20% of the premium for those insurance benefits also.

District administration hopes to begin contract negotiations in early Spring of 2016. The goal is to have a contract in place before June 30, 2016 when the current contract expires. District administration looks forward to working with the Beal City Education Association to develop a contract that remains fair to both groups while ensuring the financial integrity of the district.

District administration has been diligent about learning the details of the Patient Protection and Affordable Care Act. It is not easy to keep up to speed on the provisions of the law and when they take effect. In fact, the effective date of some provisions of the law have been moved back to start later than originally planned. One of those provisions is the "play or pay" rule which states that an employer must offer affordable health care to all staff who work an average of 30 hours per week. This was to start at the beginning of the district's insurance plan year after January 1, 2014. That date has been pushed back to January 1, 2016 for employers with 100 or fewer employees. The district has partnered with SET/SEG insurance providers to track hours for all current staff to ensure that we do not have employees who work over 30 hours per week that do not receive insurance. There is the potential of significant added costs to employee benefits as we have a number of employees not receiving health benefits who work at or over 30 hours per week.

Student count numbers for fall of 2015 have not yet been determined. As an overall district, we do anticipate a decrease in enrollment. Hopefully the decrease will be minimal. 2015/2016 is also the year that teachers will be receiving a step increase and a .5% increase on the salary schedule.

The Board of Education is committed to ensuring the financial stability of the school district. As there seems to be no end in sight to the poor economic conditions of the State of Michigan, the Board feels the need to be very cautious with spending. The uncertainty of State funding is an ongoing problem. The instability and lack of state funding creates a real challenge to Michigan's public schools.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the finances for the Beal City Public Schools for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Beal City Public Schools Central Office, 3180 W Beal City Road, Mt. Pleasant, MI 48858.

BASIC FINANCIAL STATEMENTS

Beal City Public Schools
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,609,205
Taxes receivable	65
Accounts receivable	1,900
Due from other governmental units	1,029,413
Inventory	891
Prepaid items	43,439
Capital assets not being depreciated	187,593
Capital assets - net of accumulated depreciation	<u>5,102,999</u>
 Total assets	 <u>7,975,505</u>
 Deferred Outflows of Resources	
Deferred amount of pension expense related to net pension liability	898,432
Deferred amount on debt refunding	<u>96,811</u>
 Total deferred outflows of resources	 <u>995,243</u>
 Total assets and deferred outflows of resources	 <u>8,970,748</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 11,371
Accrued expenditures	335,684
Accrued salaries payable	312,003
Unearned revenue	5,381
Noncurrent liabilities	
Net pension liability	7,800,937
Debt due within one year	499,398
Debt due in more than one year	<u>3,354,029</u>
Total liabilities	12,318,803
Deferred Inflows of Resources	
Deferred amount on net pension liability	<u>862,397</u>
Total liabilities and deferred inflows of resources	<u>13,181,200</u>
Net Position	
Net investment in capital assets	1,725,202
Restricted for	
Debt service	97,003
Food service	83,019
Grants	101,914
Unrestricted (deficit)	<u>(6,217,590)</u>
Total net position	<u><u>\$ (4,210,452)</u></u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Activities
For the Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Governmental activities				
Instruction	\$ 3,991,890	\$ 4,110	\$ 1,221,382	\$ -
Supporting services	2,252,580	88,322	-	-
Food services	268,620	146,876	137,529	-
Community services	6,362	-	-	-
Interest on long-term debt	107,371	-	-	-
	<u>\$ 6,626,823</u>	<u>\$ 239,308</u>	<u>\$ 1,358,911</u>	<u>\$ -</u>
				(5,028,604)
General revenues				
Property taxes, levied for general purposes				250,955
Property taxes, levied for debt service				578,414
State aid - unrestricted				4,880,658
Interest and investment earnings				2,776
Other				27,934
Insurance recoveries				2,124
				<u>5,742,861</u>
				714,257
				(4,924,709)
				<u>\$ (4,210,452)</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 1,269,365	\$ 337,830	\$ 1,607,195
Taxes receivable	-	65	65
Accounts receivable	1,900	-	1,900
Due from other funds	-	13,586	13,586
Due from other governmental units	1,027,412	2,001	1,029,413
Inventory	-	891	891
Prepaid items	30,439	-	30,439
Total assets	<u>\$ 2,329,116</u>	<u>\$ 354,373</u>	<u>\$ 2,683,489</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 11,371	\$ -	\$ 11,371
Due to other funds	13,586	-	13,586
Accrued expenditures	319,921	-	319,921
Accrued salaries payable	312,003	-	312,003
Unearned revenue	-	5,381	5,381
Total liabilities	<u>656,881</u>	<u>5,381</u>	<u>662,262</u>
Fund Balance			
Non-spendable			
Inventory	-	891	891
Prepaid items	30,439	-	30,439
Restricted for			
Food service	-	82,128	82,128
Debt service	-	112,766	112,766
Grants	101,914	-	101,914
Assigned			
Future budget deficit	366,807	-	366,807
Capital projects	-	153,207	153,207
Unassigned			
	<u>1,173,075</u>	<u>-</u>	<u>1,173,075</u>
Total fund balance	<u>1,672,235</u>	<u>348,992</u>	<u>2,021,227</u>
Total liabilities and fund balance	<u>\$ 2,329,116</u>	<u>\$ 354,373</u>	<u>\$ 2,683,489</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
of Governmental Activities
June 30, 2015

Total fund balances for governmental funds	\$ 2,021,227
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	187,593
Capital assets - net of accumulated depreciation	5,102,999
Deferred outflows (inflows) of resources	
Deferred outflows of resources from debt refunding	96,811
Deferred inflows of resources resulting from net pension liability	(862,397)
Deferred outflow of resources from subsequent pension expense from measurement date	898,432
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(15,763)
Retirement incentive payable	(57,439)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(133,787)
Bonds payable	(3,639,803)
Other loans payable and liabilities	(22,398)
Net pension liability	(7,800,937)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	15,010
Net position of governmental activities	\$ (4,210,452)

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 588,370	\$ 725,646	\$ 1,314,016
State sources	5,530,238	19,137	5,549,375
Federal sources	83,968	127,618	211,586
Interdistrict sources	263,978	-	263,978
	<u>6,466,554</u>	<u>872,401</u>	<u>7,338,955</u>
Total revenues			
Expenditures			
Current			
Education			
Instruction	3,859,776	-	3,859,776
Supporting services	2,110,714	-	2,110,714
Food services	-	270,133	270,133
Community services	6,362	-	6,362
Capital outlay	115,517	162,961	278,478
Debt service			
Principal	19,861	462,000	481,861
Interest and other expenditures	4,030	107,431	111,461
	<u>6,116,260</u>	<u>1,002,525</u>	<u>7,118,785</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>350,294</u>	<u>(130,124)</u>	<u>220,170</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Insurance recoveries	\$ 2,124	\$ -	\$ 2,124
Transfers in	-	150,000	150,000
Transfers out	(150,000)	-	(150,000)
	<u>(147,876)</u>	<u>150,000</u>	<u>2,124</u>
Total other financing sources (uses)			
Net change in fund balance	202,418	19,876	222,294
Fund balance - beginning	<u>1,469,817</u>	<u>329,116</u>	<u>1,798,933</u>
Fund balance - ending	<u><u>\$ 1,672,235</u></u>	<u><u>\$ 348,992</u></u>	<u><u>\$ 2,021,227</u></u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Net change in fund balances - Total governmental funds	\$ 222,294
Total change in net position reported for governmental activities in the statement of activities is different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(346,413)
Capital outlay	217,221
Expenses are recorded when incurred in the statement of activities.	
Interest	12,596
Retirement incentive payable	(2,130)
Compensated absences	35,741
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	498,611
Net change in the deferred inflow of resources related to the net pension liability	(862,397)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	465,019
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	481,861
Amortization of premiums	2,150
Amortization of deferred amount on refunding	(10,656)
Internal Service Fund revenues and expenses are included in the governmental activities in the statement of activities	360
Change in net position of governmental activities	\$ 714,257

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Net Position
June 30, 2015

Assets

Cash	\$ 2,010
Prepaid items	<u>13,000</u>
Total assets	<u>15,010</u>

Net Position

Unrestricted	<u><u>\$ 15,010</u></u>
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See Accompanying Notes to the Financial Statements

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Revenues, Expenditures and Changes in Fund Net Position
For the Year Ended June 30, 2015

Operating revenues

Charges to other funds \$ 1,738

Operating expenses

Health, dental, and vision insurance premiums and claims 1,379

Operating income 359

Nonoperating revenues

Interest income 1

Net change in net position 360

Net position - beginning 14,650

Net position - ending \$ 15,010

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities

Receipts from General Fund	\$ 1,738
Claims paid	<u>(5,910)</u>

Net cash used by operating activities	(4,172)
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Cash flows from investing activities

Interest received	<u>1</u>
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Net change in cash	(4,171)
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Cash - beginning	<u>6,181</u>
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Cash - ending	<u><u>\$ 2,010</u></u>
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Reconciliation of operating income to net cash used by operating activities

Operating income	\$ 359
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Adjustments to reconcile operating income to net cash used by operating activities - changes in assets and liabilities	
Decrease in accrued expenditures	<u>(4,531)</u>

Net cash used by operating activities	<u><u>\$ (4,172)</u></u>
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Beal City Public Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2015

	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 100,690</u>
Liabilities	
Due to student groups	<u>\$ 100,690</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Beal City Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School 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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Proprietary fund and fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. The only proprietary fund maintained is an Internal Service Fund that is used to account for the financing of risk management services provided to other funds on a cost reimbursement basis. The Internal Service Fund maintained by the School District is the Self Insurance Fund, which includes transactions related to the School District's risk management programs for medical claims.

The School District reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund includes the Food Service Fund.

The annual operating deficit generated by these activities is generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Fund – The Public Improvement Fund is used to account for financial resources to be used for construction or major renovation of facilities and is funded by General Fund transfers and interest earnings.

Internal Service Fund – The School District's proprietary fund is the Internal Service Fund. The purpose of the fund is to finance services provided to other funds of the School District on a cost-reimbursement basis. The Internal Service Fund maintained by the School District accounts for medical, dental, and vision insurance coverage. It is funded through transfers primarily from the General Fund in amounts equal to normal estimated risk management claims.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2015, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 96% of the School District's tax roll lies within the Townships of Nottawa, Isabella and Deerfield.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before July 31. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Isabella and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation.

The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Site improvements	10-20 years
Equipment and furniture	5-25 years
Fiber optic network	20 years
Buses and other vehicles	5-10 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Compensated Absences – Retiring staff are paid four (4) percent of the staff members current annual salary, provided the staff member has been employed by the school district for at least ten (10) years for teachers and twenty five (25) years for support staff. This liability is measured using the termination method.

Staff members may accumulate a maximum of one hundred eighty-three (183) unused sick days. Upon retirement or termination of employment, unused sick days are paid at 50% of the teachers' sub rate times the number of unused days up to a maximum of 100 days. Ten (10) years of service as an employee of the Beal City Public Schools is necessary in order to qualify. There is no provision for payment of unused personal days for teaching staff.

For all non teaching staff accumulated personal time and vacation time will be paid out upon leaving the district if the employee notifies the district of their intent to leave the district two weeks prior to their last day worked. Personal and vacation time will be paid out at the individual's hourly or daily rate.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

The current portion of any accrued sick, personal or vacation pay cannot be reasonably estimated and, as such, is not included as a current liability.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. There were no current year deferred inflows of resources.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature. The School District does not have any assigned fund balance at year end.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board has issued *Statement 68 Accounting and Financial Reporting for Pensions* and *Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability is recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. Statements 68 and 71 are effective for the year ending June 30, 2015.

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board (“The GASB”) has issued *Statement No. 72 Fair Value Measurements and Applications*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. The School District is evaluating the impact GASB 72 will have on its financial reporting. Statement 72 is effective for the year ending June 30, 2016.

Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement 67 and 68. The first objective of this Statement is to provide the readers of the financial statements information about the effects of the pension-related transactions on the financial statements of state and local government employers. It will assist in assessing the relationship between a government’s inflows of resources and its total cost (including pension expense) of providing government services each period in addition to providing information about the government’s pension obligation. The second objective of this Statement is to improve the information about financial support provided by certain nonemployer entities for pensions that are provided to the employees of other entities that are not within the scope of Statement No. 68. These requirements are effective for the fiscal year ending June 30, 2017. The third objective is to improve the quality of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions that are not within the scope of Statement 68 and to clarify the application of certain provisions of Statement No. 67 and 68. These requirements are effective for the fiscal year ending June 30, 2016.

Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact GASB 72 thru 75 will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$6,217,590 as of June 30, 2015. There are no other governmental funds with a deficit.

Note 3 - Deposits

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 1,609,205	\$ 100,690	\$ 1,709,895

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 1,709,895
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Beal City Public Schools
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Credit risk – State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, the School District’s bank balance was \$1,789,477. Of the bank balance, \$1,539,477 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 187,593	\$ -	\$ -	\$ 187,593
Capital assets being depreciated				
Buildings and additions	7,235,547	5,679	-	7,241,226
Site improvements	1,763,938	-	-	1,763,938
Equipment and furniture	544,157	82,302	-	626,459
Fiber optic network	390,222	-	-	390,222
Buses and other vehicles	638,785	129,240	-	768,025
Total capital assets being depreciated	10,572,649	217,221	-	10,789,870
Less accumulated depreciation for				
Buildings and additions	3,161,796	151,191	-	3,312,987
Site improvements	953,705	90,132	-	1,043,837
Equipment and furniture	390,043	39,439	-	429,482
Fiber optic network	321,931	19,511	-	341,442
Buses and other vehicles	512,983	46,140	-	559,123
Total accumulated depreciation	5,340,458	346,413	-	5,686,871
Net capital assets being depreciated	5,232,191	(129,192)	-	5,102,999
Net capital assets	\$ 5,419,784	\$ (129,192)	\$ -	\$ 5,290,592

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Notes to the Financial Statements
June 30, 2015

Depreciation expense was charged to activities of the School District as follows:

Governmental activities		
Instruction	\$	223,436
Support services		122,465
Food services		<u>512</u>
Total governmental activities	\$	<u>346,413</u>

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ <u>13,586</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	<u>Transfers Out</u>
	General
	Fund
<u>Transfers in</u>	
Nonmajor Governmental Funds	\$ <u>150,000</u>

The transfer was made to cover the costs of School District improvements.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Student deposits	\$ <u>5,381</u>
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Note 7 - Leases

Capital Lease

The School District has a capital lease for copy machines. The future minimum lease payments are as follows:

Year ending June 30,	
2016	\$ 23,891
Less amount representing interest	<u>(1,493)</u>
Present value of minimum lease payments	<u>\$ 22,398</u>

The assets acquired through capital leases are as follows:

Assets	
Machinery and equipment	\$ 90,235
Less accumulated depreciation	<u>(72,194)</u>
Total	<u>\$ 18,041</u>

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, capital leases, and retirement incentives.

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Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
General obligation bonds	\$ 4,076,000	\$ -	\$ 462,000	\$ 3,614,000	\$ 477,000
Capital lease	42,259	-	19,861	22,398	22,398
Compensated absences	169,528	-	35,741	133,787	-
Retirement incentives	55,309	2,130	-	57,439	-
Premium on bonds	27,953	-	2,150	25,803	-
Total	\$ 4,371,049	\$ 2,130	\$ 519,752	\$ 3,853,427	\$ 499,398

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the General Fund.

General obligation bonds payable at year end, consist of the following:

\$1,157,000 serial bond due in annual installments of \$71,000 to \$80,000 through May 1, 2027, interest at 3.45%.	\$ 925,000
\$1,009,000 serial bond due in annual installments of \$77,000 to \$240,000 through May 1, 2021, interest at 2.55% to 3.95%.	909,000
\$2,110,000 serial bond due in annual installments of \$240,000 to \$380,000 through May 1, 2021, interest at 1.00% to 2.60%.	<u>1,780,000</u>
Total general obligation bonded debt	<u>\$ 3,614,000</u>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2016	\$ 477,000	\$ 95,096	\$ 572,096
2017	491,000	87,173	578,173
2018	511,000	77,091	588,091
2019	535,000	64,987	599,987
2020	561,000	50,695	611,695
2021-2025	895,000	79,249	974,249
2026-2027	<u>144,000</u>	<u>7,418</u>	<u>151,418</u>
Total	<u>\$ 3,614,000</u>	<u>\$ 461,709</u>	<u>\$ 4,075,709</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$112,766 to pay this debt. Future debt and interest will be payable from future tax levies.

Compensated Absences

Accrued compensated absences at year end, consist of \$55,543 of termination pay, \$60,029 in accrued sick time benefits, and \$18,215 of vacation and personal time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Retirement Incentive

In the event a teacher retires from the district, as soon as he/she is eligible for full benefits under the Michigan Public Schools Retirement System or at the end of the school year during which he/she becomes eligible for full benefits, the teacher shall be paid \$3,000 per year on January 1 following his/her retirement for three consecutive years. The School District has estimated the likelihood of a teacher qualifying for this incentive and multiplied the likelihood by the total available benefit of \$9,000. The School District has recorded a long term liability of \$57,439 at year end.

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Deferred Amount on Refunding

The School District issued bonds in 2012 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$34,253. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2027. The balance at June 30, 2015 is \$27,385.

The School District issued bonds in 2012 to advance refund and retire the school bond loan fund debt. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$39,608. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2015 is \$35,683.

The School District issued bonds in 2014 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$40,000. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2015 is \$33,743.

Note 9 - Risk Management

The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

Note 10 - Pension Plans and Post-Employment Benefits

Organization

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

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

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- One elected member of a reporting unit's board of control.

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

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

MPSERS issues a publicly-available Comprehensive Annual Financial Report. That report may be obtained by writing to ORS at P.O. Box 30171, Lansing, Michigan 48909-7671, or on the Internet at <http://www.michigan.gov/orsschools>.

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

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	<u>204,512</u>
Inactive plan members entitled to, but not yet receiving benefits:	
	<u>16,979</u>
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	<u>210,777</u>
Total plan members	<u><u>432,268</u></u>

Benefits Provided – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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.

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

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

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

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

Employer Contributions

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

Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Reserve for Employer Contributions - This reserve represents all employer contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At

September 30, 2014, the balance in this reserve was a deficit of (\$25.8) billion.

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

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

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

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

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

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

Benefit Protection – Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment,

garnishment, levy, execution, bankruptcy or other legal process, except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

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

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

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

Property and Equipment – Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Post-employment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

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

Building rentals	\$ 789,000
Technological support	10,420,000
Attorney general	417,000
Investment services	12,846,000
Personnel services	9,922,000

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

Contributions and Funding Status

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

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

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

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The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

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

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

Net Pension Liability

Measurement of the MPERS Net Pension Liability – The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in

actuarial valuations performed to determine the employer's contribution requirement).

MPERS (Plan) Net Pension Liability – As of September 30, 2014:

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year one MPERS implementation of GASB Statement No. 68 recognizes a 0.00% change in the employers' proportionate share between beginning net pension liability and ending net pension liability.

MPERS (Plan) Net Pension Liability – As of October 1, 2013:

Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	<u>39,427,686,072</u>
Net Pension Liability	<u>\$ 23,431,813,922</u>

Proportionate Share of Reporting Unit's Net Pension Liability – At September 30, 2014, the School District reported a liability of \$7,800,937 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2014, the School District's proportionate share percent was 0.03542 percent, which is unchanged since the prior measurement date.

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Long-Term Expected Return on Plan Assets – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	4.8%
Alternative Investment Pools	18.00%	8.5%
International Equity	16.00%	6.1%
Fixed Income Pools	10.50%	1.5%
Real Estate and Infrastructure Pools	10.00%	5.3%
Absolute Return Pools	15.50%	6.3%
Short Term Investment Pools	2.00%	-0.2%
	100.00%	

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

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

Discount Rate – A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long- term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate

assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially-determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – As required by GASB Statement No. 68, the following presents the School District’s proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School District’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:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
7.0% / 6.0%	8.0% / 7.0%	9.0% / 8.0%
\$ 10,284,856	\$ 7,800,937	\$ 5,708,199

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

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

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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

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

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

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions:

- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were

used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The experience study is included in the actuarial valuation described above.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the MPSERS Comprehensive Annual Financial Report.

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

For the year ended June 30, 2015, the School District recognized total pension expense of \$631,898. At June 30, 2015, the employer 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 in assumptions	\$ 287,838	\$ -
Net difference between projected and actual earnings on pension plan investments	-	862,397
Employer contributions subsequent to the measurement date	610,594	-
	\$ 898,432	\$ 862,397

Beal City Public Schools
Notes to the Financial Statements
June 30, 2015

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

Deferred (Inflows) and Deferred Outflows of Resources by Year

Plan Year Ending September 30	Amount
2015	\$ 469,841
2016	(140,753)
2017	(140,753)
2018	(152,300)
	<u>\$ 36,035</u>

Post-Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2014 through September 30, 2014, and October 1, 2014 through June 30, 2015, the employer contribution rate ranged from 5.52% to 6.45% and 2.20% to 2.71%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2015, 2014, and 2013 and were approximately \$102,300, \$213,600, and \$261,200, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2015, the School District had contributions in the amount of \$256,358 to the MPERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 7.63% for the year.

Note 11 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 12 - Prior Period Adjustment

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statements 68 and 71. These statements require the School District to record their proportionate share of the net pension liability and pension expense. Previously these amounts were not recorded on the School District's statements. The standards require this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2014, by \$7,866,135, restating it from \$2,941,426 to (\$4,924,709).

REQUIRED SUPPLEMENTARY INFORMATION

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 363,870	\$ 587,371	\$ 588,370	\$ 999
State sources	5,323,080	5,530,502	5,530,238	(264)
Federal sources	66,006	84,104	83,968	(136)
Interdistrict sources	296,500	263,978	263,978	-
Total revenues	6,049,456	6,465,955	6,466,554	599
Expenditures				
Instruction				
Basic programs	3,104,522	3,036,580	2,969,019	(67,561)
Added needs	782,446	798,724	787,361	(11,363)
Adult and continuing education	103,825	103,891	103,396	(495)
Supporting services				
Pupil	93,473	92,881	92,420	(461)
Instructional staff	147,928	146,526	133,487	(13,039)
General administration	203,932	207,026	203,713	(3,313)
School administration	377,106	388,774	384,179	(4,595)
Business	142,462	125,832	120,848	(4,984)
Operations and maintenance	441,030	430,671	421,763	(8,908)
Pupil transportation services	446,465	402,760	377,656	(25,104)
Central	111,448	125,416	123,171	(2,245)
Athletics	255,220	263,499	253,477	(10,022)
Community services	481	6,350	6,362	12
Capital outlay	42,358	160,936	115,517	(45,419)
Debt service				
Principal	-	19,861	19,861	-
Interest and fiscal charges	-	4,030	4,030	-
Total expenditures	6,252,696	6,313,757	6,116,260	(197,497)

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$ (203,240)	\$ 152,198	\$ 350,294	\$ 198,096
Other Financing Sources (Uses)				
Insurance recoveries	-	2,120	2,124	4
Transfers out	(100,000)	(150,000)	(150,000)	-
Total other financing sources (uses)	(100,000)	(147,880)	(147,876)	4
Net change in fund balance	(303,240)	4,318	202,418	198,100
Fund balance - beginning	1,469,817	1,469,817	1,469,817	-
Fund balance - ending	<u>\$ 1,166,577</u>	<u>\$ 1,474,135</u>	<u>\$ 1,672,235</u>	<u>\$ 198,100</u>

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

	June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A. Reporting unit's proportion of net pension liability (%)	0.04%									
B. Reporting unit's proportionate share of net pension liability	\$ 7,800,937									
C. Reporting unit's covered-employee payroll	\$ 3,026,438									
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	257.76%									
E. Plan fiduciary net position as a percentage of total pension liability	66.20%									

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A. Statutorily required contributions	\$ 727,215									
B. Contributions in relation to statutorily required contributions	<u>727,215</u>									
C. Contribution deficiency (excess)	<u>\$ -</u>									
D. Reporting unit's covered- employee payroll	2,956,960									
E. Contributions as a percentage of covered-employee payroll	24.59%									

OTHER SUPPLEMENTARY INFORMATION

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

	Special	Debt Service Funds			Capital Projects	Total
	Revenue Fund				Fund	Nonmajor
	Food Services	2012	2014	2012 SBLF Refunding	Public Improvement	Governmental Funds
Assets						
Cash	\$ 71,922	\$ 37,108	\$ 39,933	\$ 35,660	\$ 153,207	\$ 337,830
Taxes receivable	-	14	40	11	-	65
Due from other funds	13,586	-	-	-	-	13,586
Due from other governmental units	2,001	-	-	-	-	2,001
Inventory	891	-	-	-	-	891
Total assets	\$ 88,400	\$ 37,122	\$ 39,973	\$ 35,671	\$ 153,207	\$ 354,373
Liabilities and Fund Balance						
Liabilities						
Unearned revenue	\$ 5,381	\$ -	\$ -	\$ -	\$ -	\$ 5,381
Fund Balance						
Non-spendable						
Inventory	891	-	-	-	-	891
Restricted for						
Food service	82,128	-	-	-	-	82,128
Debt service	-	37,122	39,973	35,671	-	112,766
Assigned						
Capital projects	-	-	-	-	153,207	153,207
Total fund balance	83,019	37,122	39,973	35,671	153,207	348,992
Total liabilities and fund balance	\$ 88,400	\$ 37,122	\$ 39,973	\$ 35,671	\$ 153,207	\$ 354,373

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	Special	Debt Service Funds			Capital	Total
	Revenue Fund			2012 SBLF	Projects Fund	Nonmajor
	Food Services	2012	2014	Refunding	Public	Governmental
					Improvement	Funds
Revenues						
Local sources	\$ 146,943	\$ 126,479	\$ 358,781	\$ 93,410	\$ 33	\$ 725,646
State sources	17,960	257	730	190	-	19,137
Federal sources	127,618	-	-	-	-	127,618
Total revenues	292,521	126,736	359,511	93,600	33	872,401
Expenditures						
Current						
Food services	270,133	-	-	-	-	270,133
Capital outlay	991	-	-	-	161,970	162,961
Debt service						
Principal	-	81,000	330,000	51,000	-	462,000
Interest and other expenditures	-	34,706	41,867	30,858	-	107,431
Total expenditures	271,124	115,706	371,867	81,858	161,970	1,002,525
Excess (deficiency) of revenues over expenditures	21,397	11,030	(12,356)	11,742	(161,937)	(130,124)
Other Financing Sources						
Transfers in	-	-	-	-	150,000	150,000
Net change in fund balance	21,397	11,030	(12,356)	11,742	(11,937)	19,876
Fund balance - beginning	61,622	26,092	52,329	23,929	165,144	329,116
Fund balance - ending	\$ 83,019	\$ 37,122	\$ 39,973	\$ 35,671	\$ 153,207	\$ 348,992

Beal City Public Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2015

	2015	2014
Assets		
Cash	\$ 1,269,365	\$ 968,848
Accounts receivable	1,900	1,343
Due from other governmental units	1,027,412	1,119,380
Prepaid items	30,439	29,819
Total assets	\$ 2,329,116	\$ 2,119,390
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 11,371	\$ 9,955
Due to other funds	13,586	23,199
Accrued expenditures	319,921	288,658
Accrued salaries payable	312,003	320,674
Unearned revenue	-	7,087
Total liabilities	656,881	649,573
Fund Balance		
Non-spendable		
Prepaid items	30,439	29,819
Restricted for		
Grants	101,914	16,991
Assigned		
Future budget deficit	366,807	303,240
Unassigned	1,173,075	1,119,767
Total fund balance	1,672,235	1,469,817
Total liabilities and fund balance	\$ 2,329,116	\$ 2,119,390

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 233,795	\$ 250,954	\$ 250,955	\$ 1
Tuition	8,000	4,110	4,110	-
Transportation fees	1,500	1,600	1,664	64
Earnings on investments	2,075	2,335	2,419	84
Student activities	62,000	78,765	80,129	1,364
Other local revenues	56,500	249,607	249,093	(514)
Total revenues from local sources	<u>363,870</u>	<u>587,371</u>	<u>588,370</u>	<u>999</u>
Revenues from state sources				
Grants - unrestricted	4,797,310	4,896,187	4,897,255	1,068
Grants - restricted	525,770	634,315	632,983	(1,332)
Total revenues from state sources	<u>5,323,080</u>	<u>5,530,502</u>	<u>5,530,238</u>	<u>(264)</u>
Revenues from federal sources				
Grants	66,006	84,104	83,968	(136)
Interdistrict sources				
ISD collected millage	294,000	263,978	263,978	-
Other	2,500	-	-	-
Total interdistrict sources	<u>296,500</u>	<u>263,978</u>	<u>263,978</u>	<u>-</u>
Other financing sources				
Insurance recoveries	-	2,120	2,124	4
Total revenue and other financing sources	<u>\$ 6,049,456</u>	<u>\$ 6,468,075</u>	<u>\$ 6,468,678</u>	<u>\$ 603</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 901,118	\$ 873,911	\$ 869,930	\$ (3,981)
Employee benefits	635,672	621,163	616,314	(4,849)
Purchased services	22,236	21,614	19,009	(2,605)
Supplies and materials	43,557	24,715	16,317	(8,398)
Total elementary	<u>1,602,583</u>	<u>1,541,403</u>	<u>1,521,570</u>	<u>(19,833)</u>
Basic program - high school				
Salaries	830,777	793,920	792,613	(1,307)
Employee benefits	560,634	538,669	538,032	(637)
Purchased services	80,492	100,266	88,984	(11,282)
Supplies and materials	30,036	62,322	27,820	(34,502)
Total high school	<u>1,501,939</u>	<u>1,495,177</u>	<u>1,447,449</u>	<u>(47,728)</u>
Added needs - special education				
Salaries	259,679	236,452	235,190	(1,262)
Employee benefits	168,734	160,277	155,905	(4,372)
Purchased services	44,586	42,370	41,624	(746)
Supplies and materials	1,387	1,587	1,293	(294)
Total special education	<u>474,386</u>	<u>440,686</u>	<u>434,012</u>	<u>(6,674)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	\$ 76,978	\$ 85,740	\$ 85,591	\$ (149)
Employee benefits	50,362	55,520	55,807	287
Purchased services	1,100	50	15	(35)
Supplies and materials	2,100	1,500	1,008	(492)
	<u>130,540</u>	<u>142,810</u>	<u>142,421</u>	<u>(389)</u>
Added needs - career and technical education				
Salaries	19,566	27,428	26,803	(625)
Employee benefits	10,229	12,606	11,901	(705)
Purchased services	300	525	525	-
Supplies and materials	300	3,645	675	(2,970)
Other	147,125	171,024	171,024	-
	<u>177,520</u>	<u>215,228</u>	<u>210,928</u>	<u>(4,300)</u>
Adult and continuing education - basic				
Salaries	61,869	60,881	60,837	(44)
Employee benefits	34,181	34,713	34,284	(429)
Purchased services	1,000	1,447	1,445	(2)
Supplies and materials	6,775	6,850	6,830	(20)
	<u>103,825</u>	<u>103,891</u>	<u>103,396</u>	<u>(495)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	\$ 50,474	\$ 50,462	\$ 50,243	\$ (219)
Employee benefits	40,529	40,694	40,666	(28)
Supplies and materials	225	225	-	(225)
Total guidance services	<u>91,228</u>	<u>91,381</u>	<u>90,909</u>	<u>(472)</u>
Pupil - speech services				
Purchased services	445	-	-	-
Pupil - other support services				
Salaries	1,275	1,065	1,065	-
Employee benefits	525	435	446	11
Total other pupil support services	<u>1,800</u>	<u>1,500</u>	<u>1,511</u>	<u>11</u>
Instructional staff - improvement of education				
Salaries	1,000	2,000	1,610	(390)
Employee benefits	419	662	672	10
Purchased services	24,887	16,431	14,485	(1,946)
Supplies and materials	250	250	-	(250)
Total improvement of education	<u>26,556</u>	<u>19,343</u>	<u>16,767</u>	<u>(2,576)</u>
Instructional staff - educational media services				
Purchased services	18,016	18,170	17,245	(925)
Supplies and materials	1,386	5,936	58	(5,878)
Total educational media services	<u>19,402</u>	<u>24,106</u>	<u>17,303</u>	<u>(6,803)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - technology assisted instruction				
Salaries	\$ 47,397	\$ 47,164	\$ 47,164	\$ -
Employee benefits	34,223	34,863	34,651	(212)
Purchased services	18,200	9,200	9,186	(14)
Other	50	50	-	(50)
Total technology assisted instruction	<u>99,870</u>	<u>91,277</u>	<u>91,001</u>	<u>(276)</u>
Instructional staff - academic student assessment				
Purchased services	-	11,000	7,978	(3,022)
Supplies and materials	2,100	800	438	(362)
Total academic student assessment	<u>2,100</u>	<u>11,800</u>	<u>8,416</u>	<u>(3,384)</u>
General administration - board of education				
Purchased services	21,190	26,190	24,985	(1,205)
Other	11,700	11,700	10,110	(1,590)
Total board of education	<u>32,890</u>	<u>37,890</u>	<u>35,095</u>	<u>(2,795)</u>
General administration - executive administration				
Salaries	103,230	102,721	102,721	-
Employee benefits	62,912	61,515	61,402	(113)
Purchased services	900	900	679	(221)
Supplies and materials	3,500	3,750	3,646	(104)
Other	500	250	170	(80)
Total executive administration	<u>171,042</u>	<u>169,136</u>	<u>168,618</u>	<u>(518)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	\$ 218,987	\$ 223,856	\$ 222,666	\$ (1,190)
Employee benefits	146,899	151,677	150,794	(883)
Purchased services	1,500	2,781	2,338	(443)
Supplies and materials	6,300	7,600	7,065	(535)
Other	1,000	1,160	760	(400)
Total office of the principal	<u>374,686</u>	<u>387,074</u>	<u>383,623</u>	<u>(3,451)</u>
School administration - other				
Supplies and materials	2,420	1,700	556	(1,144)
Business - fiscal services				
Salaries	52,322	54,881	53,140	(1,741)
Employee benefits	44,070	44,329	44,459	130
Purchased services	7,400	7,900	7,686	(214)
Supplies and materials	100	100	-	(100)
Other	130	285	285	-
Total fiscal services	<u>104,022</u>	<u>107,495</u>	<u>105,570</u>	<u>(1,925)</u>
Business - internal services				
Purchased services	28,000	10,000	9,005	(995)
Business - other				
Purchased services	4,940	4,837	4,837	-
Other	5,500	3,500	1,436	(2,064)
Total other business	<u>10,440</u>	<u>8,337</u>	<u>6,273</u>	<u>(2,064)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Operations and maintenance - operating building services				
Salaries	\$ 138,188	\$ 131,840	\$ 130,257	\$ (1,583)
Employee benefits	87,760	87,328	84,397	(2,931)
Purchased services	127,907	136,643	135,561	(1,082)
Supplies and materials	87,075	74,560	71,266	(3,294)
Other	100	300	282	(18)
Total operating building services	<u>441,030</u>	<u>430,671</u>	<u>421,763</u>	<u>(8,908)</u>
Pupil transportation services				
Salaries	123,873	117,877	116,474	(1,403)
Employee benefits	168,609	161,460	157,216	(4,244)
Purchased services	106,133	82,173	72,499	(9,674)
Supplies and materials	47,600	41,000	31,467	(9,533)
Other	250	250	-	(250)
Total transportation services	<u>446,465</u>	<u>402,760</u>	<u>377,656</u>	<u>(25,104)</u>
Central - communication services				
Purchased services	<u>18,000</u>	<u>20,000</u>	<u>19,727</u>	<u>(273)</u>
Central - staff/personnel services				
Salaries	26,009	25,881	25,881	-
Employee benefits	19,751	19,840	19,769	(71)
Purchased services	11,900	16,235	15,214	(1,021)
Other	880	1,025	962	(63)
Total staff/personnel services	<u>58,540</u>	<u>62,981</u>	<u>61,826</u>	<u>(1,155)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - support services technology				
Salaries	\$ 11,849	\$ 11,791	\$ 11,791	\$ -
Employee benefits	8,559	8,644	8,664	20
Purchased services	14,000	21,500	20,978	(522)
Other	500	500	185	(315)
Total support services technology	<u>34,908</u>	<u>42,435</u>	<u>41,618</u>	<u>(817)</u>
Athletic activities				
Salaries	86,603	81,132	79,963	(1,169)
Employee benefits	44,440	45,106	40,363	(4,743)
Purchased services	101,562	98,551	98,049	(502)
Supplies and materials	13,250	14,000	12,139	(1,861)
Other	9,365	24,710	22,963	(1,747)
Total athletic activities	<u>255,220</u>	<u>263,499</u>	<u>253,477</u>	<u>(10,022)</u>
Community services - non-public school pupils				
Salaries	-	3,584	3,584	-
Employee benefits	-	2,285	2,285	-
Purchased services	481	481	493	12
Total non-public school pupils	<u>481</u>	<u>6,350</u>	<u>6,362</u>	<u>12</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Capital outlay				
Basic program - elementary	\$ 2,500	\$ 500	\$ 185	\$ (315)
Basic program - high school	2,000	21,967	100	(21,867)
Added needs - special education	500	600	314	(286)
Added needs - compensatory education	100	100	-	(100)
Adult and continuing education - basic	-	200	150	(50)
Instructional staff - technology assisted instruction	5,712	1,164	664	(500)
General administration - executive administration	150	150	-	(150)
School administration - office of the principal	200	200	-	(200)
Business - fiscal services	-	-	265	265
Operations and maintenance - operating building services	5,000	22,000	1,516	(20,484)
Central - support services technology	17,196	22,897	23,087	190
Athletics	9,000	8,660	6,738	(1,922)
Other support services	-	82,498	82,498	-
Total capital outlay	<u>42,358</u>	<u>160,936</u>	<u>115,517</u>	<u>(45,419)</u>
Debt service				
Principal	-	19,861	19,861	-
Interest and other expenditures	-	4,030	4,030	-
Total debt service	<u>-</u>	<u>23,891</u>	<u>23,891</u>	<u>-</u>
Other financing uses				
Transfers out	<u>100,000</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Total expenditures and financing uses	<u>\$ 6,352,696</u>	<u>\$ 6,463,757</u>	<u>\$ 6,266,260</u>	<u>\$ (197,497)</u>

Beal City Public Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2015

Year Ending June 30,	2014	2012 Series A	2012 Series B	Total
2016	\$ 320,000	\$ 80,000	\$ 77,000	\$ 477,000
2017	300,000	79,000	112,000	491,000
2018	280,000	78,000	153,000	511,000
2019	260,000	77,000	198,000	535,000
2020	240,000	81,000	240,000	561,000
2021	380,000	80,000	129,000	589,000
2022	-	79,000	-	79,000
2023	-	77,000	-	77,000
2024	-	76,000	-	76,000
2025	-	74,000	-	74,000
2026	-	73,000	-	73,000
2027	-	71,000	-	71,000
Total	<u>\$ 1,780,000</u>	<u>\$ 925,000</u>	<u>\$ 909,000</u>	<u>\$ 3,614,000</u>
Principal payments due the first day of	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	
Interest rate	0.50% - 2.60%	3.45%	1.95% - 3.95%	
Original issue	<u>\$ 2,110,000</u>	<u>\$ 1,157,000</u>	<u>\$ 1,009,000</u>	

**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***

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Beal City Public Schools' basic financial statements, and have issued our report thereon dated October 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Beal City Public 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 Beal City Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Beal City Public Schools' internal control.

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

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

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.

Yeo & Yeo, P.C.

Alma, MI
October 19, 2015