

Belding Area Schools

**Financial Statements
With Supplemental Information
June 30, 2014**

Belding Area Schools

June 30, 2014
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Independent Auditor's Report



Independent Auditor's Report

To the Board of Education
Belding Area Schools
Belding, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belding Area Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 the Belding Area Schools, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Belding Area Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations* are presented for purpose of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the Belding Area 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 Belding Area Schools' internal control over financial reporting and compliance.

Biggs, Hausserman, Thompson & Dickinson, P.C.

BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Saranac, MI

October 31, 2014

Management's Discussion and Analysis

Belding Area Schools

Management's Discussion and Analysis

June 30, 2014

This section of the Belding Area Schools' annual financial report represents our discussion and analysis of the School District's financial performance and is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position and its ability to address the next and subsequent year challenges. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2014.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Belding Area School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund - the General Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Net Position presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is organized as follows:

Management's Discussion & Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial
Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets and liabilities, as reported in the Statement of Net Position - as one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position - as reported in the Statement of Activities - are one indicator of whether its financial health is

Belding Area Schools

Management's Discussion and Analysis

June 30, 2014

improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most *significant funds* - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds in a* reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or *fiduciary* for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Belding Area Schools
Management's Discussion and Analysis
June 30, 2014

The School District As A Whole

The Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2014 and 2013:

Table 1:

Net Position Summary		Governmental Activities	
	2014	2013	
Current and other assets	\$ 11,408,194	\$ 12,351,965	
Capital assets	50,320,533	50,523,545	
Total assets	61,728,727	62,875,510	
Deferred outflows of resources	274,674	297,114	
Current and other liabilities	6,603,629	6,675,847	
Long-term liabilities	57,743,381	57,169,827	
Total liabilities	64,347,010	63,845,674	
Net position			
Net investment in capital assets	(8,651,995)	(7,978,290)	
Restricted for capital projects	502,218	2,004,186	
Restricted for debt service	3,826,922	2,808,114	
Restricted for food service	118,314	95,613	
Unrestricted	1,860,932	2,397,327	
Total net position	\$ (2,343,609)	\$ (673,050)	

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$(2,343,609) at June 30, 2014. Invested in capital assets, net of related debt totaling \$(8,651,995) compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approval property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those assets for day-to-day operations. Net position restricted for debt service totaled \$3,826,922 and food service totaled \$118,314. The remaining amount of net position, \$1,860,932, was unrestricted.

Belding Area Schools
Management's Discussion and Analysis
June 30, 2014

The \$1,860,932 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net position for fiscal year 2014 and 2013.

Table 2:

Statement of Activities Summary		Governmental Activities	
	2014	2013	
Revenues			
Program revenues			
Charges for services	\$ 378,974	\$ 375,166	
Grants and Categoricals	4,144,375	4,104,589	
General Revenues			
Property taxes	3,594,501	3,584,235	
State foundation allowance	12,280,585	12,442,892	
Other general revenues	1,436,689	1,477,131	
Total revenues	21,835,124	21,984,013	
Functions/Program Expenses			
Instruction	10,907,230	10,875,589	
Support services	7,000,474	6,593,800	
Food services	853,215	788,254	
Community service	24,044	41,673	
Interest on long-term debt	3,256,167	3,259,339	
Depreciation (unallocated)	1,464,553	686,811	
Total expenses	23,505,683	22,245,466	
Increase (decrease) in net position	\$ (1,670,559)	\$ (261,453)	

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$23,505,683. Certain activities were partially funded from those who benefited from the program (\$378,974) or by governments and organizations that subsidized certain programs with grants and categorical (\$4,144,375). We paid for the remaining "public benefit" portion of our governmental activities with \$3,594,501 in taxes, \$12,280,585 in state Foundation Allowance, and with our other revenues, like interest and general entitlements.

The School District experienced a decrease in net position of \$1,670,559. The key reason was a decrease in investment income due to spending down capital project funds and depreciation on significant new assets that were placed in service.

Belding Area Schools

Management's Discussion and Analysis

June 30, 2014

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

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the School District is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the School District's overall financial health.

The School District's Funds (Continued)

As the School District completed this year; our governmental funds reported a combined fund balance of \$7,266,911 which is a decrease of \$738,054 from last year. The primary reasons for these are:

Our general fund is our principal operating fund. The fund balance in the general fund decreased \$282,892 to \$2,530,313. The decrease is due to reduced revenues and increased expenditures.

Our special revenue fund showed a net increase of \$22,701.

The debt service funds showed an increase of \$1,024,105. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The capital projects fund had excess expenditures of \$1,501,968 as projects from the 2010 bonds continued and neared completion.

General Fund Budgetary Highlights

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

Over the course of the year, the district's practice is to revise the budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure expenditures do not exceed appropriations.

Budget revenues were increased \$286,910 from the original budget. These were various amendments to properly reflect revenues based on more current information.

Budget expenditures were increased \$110,535 to more closely reflect program expenditures.

Belding Area Schools
Management's Discussion and Analysis
June 30, 2014

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the School District had \$50,320,533 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of \$203,012, or .4%, from last year.

Capital Assets at Year-End

	June 30, 2014	June 30, 2013
Land	\$ 243,585	\$ 243,585
Construction in process	0	1,805,321
Buildings	48,020,354	46,576,934
Buses and other vehicles	660,714	535,249
Furniture and equipment	1,395,880	1,362,456
Total capital assets	\$ 50,320,533	\$ 50,523,545

This year's additions are various improvements mostly related to the 2010 bond projects.

Capital Asset and Debt Administration (Continued)

Debt

At the end of this year, the School District had \$49,770,000 in bonds outstanding versus \$51,815,000 last year - a decrease of \$2,045,000. Those bonds consisted of:

Outstanding Debt at Year-End

	June 30, 2014	June 30, 2013
General obligation bonds	\$ 49,770,000	\$ 51,815,000

The School District's general obligation bond rating was increased to A+ rating in 2010. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e. debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding general obligation debt of \$49,770,000 is below the statutory imposed limit. Other obligations include termination benefits.

Belding Area Schools
Management's Discussion and Analysis
June 30, 2014

The borrowings and accrued interest owed to the School Bond Loan fund were increased during the year by \$2,785,966. The balance at the end of the year is \$9,719,708, including accrued interest.

We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2014-2015 fiscal year budget and tax rates. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Approximately 90% of total general fund revenue is from the Foundation Allowance.

Under State law, the School District cannot access additional property tax revenue for general operations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State of Michigan's economy continues to struggle. The District has budgeted for a reduction of 50 students for the 2014-2015 school year.

Various State legislation has been enacted in the attempt to lessen the local burden for retirement and employee insurance costs.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Adrienne Barna
Business Manager
Belding Area Schools
850 Hall Street
Belding, MI 48809
(616) 794-4707

Government-Wide Financial Statements

Belding Area Schools
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets	
Current Assets	
Cash and investments	\$ 7,431,747
Accounts receivable	91,935
Accrued interest	50,268
Due from other governments	3,380,131
Inventory	426,080
Prepaid expense	28,033
Total current assets	11,408,194
Noncurrent Assets	
Capital assets	66,208,370
Less: accumulated depreciation	(15,887,837)
Total noncurrent assets	50,320,533
Total Assets	61,728,727
Deferred Outflows of Resources	
Deferred charges, net of amortization	274,674
Liabilities	
Current Liabilities	
Accounts payable	477,096
Salaries and withholdings payable	1,163,381
Due to other governments	646,029
Accrued interest payable	487,837
Unearned revenue	139,286
Notes payable	1,500,000
Long-term liabilities due within one year	
Bonds payable- due within one year	2,190,000
Total Current Liabilities	6,603,629
Noncurrent Liabilities	
Bonds and other loans payable	57,575,869
Compensated absences, not due within one year	167,512
Total Noncurrent Liabilities	57,743,381
Total Liabilities	64,347,010
Net Position	
Net investment in capital assets	(8,651,995)
Restricted for:	
Capital projects	502,218
Debt service	3,826,922
Food service	118,314
Unrestricted	1,860,932
Total Net Position	\$ (2,343,609)

See accompanying notes to financial statements

Belding Area Schools
Statement of Activities
June 30, 2014

	Program Revenues			Governmental Activities
Expenses	Charges for Service	Operating Grants	Net (Expenses) Revenues and Changes in Net Assets	
Governmental activities:				
Instruction	\$ 10,907,230	\$ 16,540	\$ 3,213,030	\$ (7,677,660)
Support services	7,000,474	161,607	217,331	(6,621,536)
Food service	853,215	186,453	714,014	47,252
Community services	24,044	14,374	0	(9,670)
Interest on long- term debt	3,256,167	0	0	(3,256,167)
Depreciation (unallocated)	1,464,553	0	0	(1,464,553)
Total governmental activities	\$ 23,505,683	\$ 378,974	\$ 4,144,375	(18,982,334)
General revenues:				
Taxes				
Property taxes, levied for general purpose			1,436,167	
Property taxes, levied for debt service			2,158,334	
State aid not restricted to specific purposes			12,280,585	
Interest and investment earnings			1,410,302	
Other			26,387	
Total general revenues			17,311,775	
Changes in Net Position				(1,670,559)
Net Position-Beginning of year, as restated				(673,050)
Net Position-End of year				\$ (2,343,609)

See accompanying notes to financial statements

Fund Financial Statements

Belding Area Schools
Governmental Funds
Balance Sheet
June 30, 2014

	General	Capital Projects	Other Non-Major Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 2,776,092	\$ 502,488	\$ 4,153,167	\$ 7,431,747
Accounts receivable	41,935	0	50,000	91,935
Accrued interest receivable	0	0	50,268	50,268
Due from other funds	40,268	0	0	40,268
Due from other governments	3,110,372	0	54,268	3,164,640
Inventory	412,921	0	13,159	426,080
Prepaid expenses	28,033	0	0	28,033
Total assets	\$ 6,409,621	\$ 502,488	\$ 4,320,862	\$ 11,232,971
Liabilities and Fund Equity				
Liabilities				
Accounts payable	\$ 439,261	\$ 270	\$ 37,565	\$ 477,096
Salaries and withholdings payable	1,154,732	0	8,649	1,163,381
Due to other funds	0	0	40,268	40,268
Due to other governments	646,029	0	0	646,029
Unearned revenue	139,286	0	0	139,286
Notes payable	1,500,000	0	0	1,500,000
Total Liabilities	3,879,308	270	86,482	3,966,060
Fund Equity				
Fund balances				
Non-spendable for:				
Inventory	412,921	0	13,159	426,080
Prepaid expenditures	28,033	0	0	28,033
Restricted	0	502,218	4,221,221	4,723,439
Assigned				
Compensated absences	167,512	0	0	167,512
Subsequent year budget usage	674,726	0	0	674,726
Unassigned	1,247,121	0	0	1,247,121
Total fund equity	2,530,313	502,218	4,234,380	7,266,911
Total liabilities and fund equity	\$ 6,409,621	\$ 502,488	\$ 4,320,862	\$ 11,232,971

Belding Area Schools
 Governmental Funds
 Reconciliation of Balance Sheet of Governmental Funds to Net Position
 June 30, 2014

Total fund Balances- Governmental Funds **\$ 7,266,911**

Amounts reported for governmental activities
 in the statement of net position are different because:

Capital assets used in government activities
 are not financial resources, and are not reported in the funds

Deferred charges, net of amortization	274,674	
Capital assets cost:	66,208,370	
Accumulated depreciation:	<u>(15,887,837)</u>	
Net Capital Assets		50,595,207

Long term and other liabilities are not due and payable
 in the current period and are not reported in the funds

Bonds and other loans payable		(59,765,869)
Accrued Interest-net		(272,346)
Compensated absences		<u>(167,512)</u>

Net Position of Governmental Activities **\$ (2,343,609)**

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

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,689,264	\$ 14,678	\$ 3,738,268	\$ 5,442,210
State sources	14,084,133	0	21,587	14,105,720
Federal sources	936,130	0	692,427	1,628,557
Other	690,685	0	0	690,685
Total revenues	17,400,212	14,678	4,452,282	21,867,172
Expenditures				
Instruction				
Basic programs	7,912,555	0	0	7,912,555
Added needs	2,944,436	0	0	2,944,436
Adult and continuing education	51,245	0	0	51,245
Support services				
Pupil	906,842	0	0	906,842
Instructional staff	393,659	0	0	393,659
General administration	365,553	0	0	365,553
School administration	1,224,359	0	0	1,224,359
Business and central services	3,527,435	0	0	3,527,435
Athletics	321,214	0	0	321,214
Food service	0	0	848,877	848,877
Community services	24,044	0	0	24,044
Other transactions	41,068	0	0	41,068
Capital outlay-bonds	0	1,516,646	0	1,516,646
Debt services				
Redemption of bonds/notes	0	0	2,045,000	2,045,000
Interest and fiscal charges	0	0	2,998,206	2,998,206
Total expenditures	17,712,410	1,516,646	5,892,083	25,121,139
Excess (deficiency) of revenues over expenditures	(312,198)	(1,501,968)	(1,439,801)	(3,253,967)
Other financing sources (uses)				
Proceeds from SLRF	0	0	2,515,913	2,515,913
Operating transfers in	29,306	0	0	29,306
Operating transfers out	0	0	(29,306)	(29,306)
Total other financing sources (uses)	29,306	0	2,486,607	2,515,913
Excess (deficiency) of revenues over expenditures and other sources (uses)	(282,892)	(1,501,968)	1,046,806	(738,054)
Fund balances at beginning of year	2,813,205	2,004,186	3,187,574	8,004,965
Fund balances at end of year	\$ 2,530,313	\$ 502,218	\$ 4,234,380	\$ 7,266,911

Belding Area Schools
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to Statement of Activities
 Year Ended June 30, 2014

Net Change in fund Balances- Total Governmental funds \$ (738,054)

Amount reported for governmental activities in the statement of activities are different because:

Governmental funds reported capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,722,188)
Capital outlay	1,551,224
Gain adjustment on asset disposals, net book value	(32,048)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (258,534)

Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)

Principal repayment	2,045,000
Proceeds from debt issuances	(2,515,913)
Amortization of premiums on debt issuances	23,013
Amortization of deferred charges	(22,440)

Compensated absences/voluntary severance plans are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Change in accrued compensated absences	(619)
--	-------

Net Change in Net Position- Governmental Activities **\$ (1,670,559)**

Belding Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Agency Funds- Student Activities</u>
Assets	
Cash and Cash Equivalents	<u>\$ 200,153</u>
Liabilities	
Due to Student groups	<u>\$ 200,153</u>

See accompanying notes to financial statements

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Belding Area Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected 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 Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The district does not allocate indirect costs.

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

The District first utilizes restricted resources to finance qualifying activities.

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Fund Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

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

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

The School District reports the following major governmental funds:

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

Capital Projects fund is used to account for the construction of fixed assets.

The Government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Fund maintained by the School District is the Food Services Fund.

Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Capital Projects funds are used to account for the construction of fixed assets.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes assessed as of December 31 and the related property taxes are levied and become a lien on December 1. These taxes are billed on December 1st and are due February 15th. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

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

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. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as revenue and expensed when received. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

The General Fund inventory also includes the construction cost of any unsold trade skills homes and street improvement costs allocated to unused building sites, which are held for sale by the district. The amount at June 30, 2014 is \$323,369.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

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

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

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its requisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Compensated Absences – The liability for compensated absences reported in the government-wide statements consist of unpaid, accumulated annual vacation and sick pay balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

Non-spendable – assets 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 constrained on use imposed by the District's highest level of decision-making, its board of education. 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. \$674,726 has been assigned to balance next year's budget in the general fund.

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 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 District's policy is to consider the funds to be spent in the following order: 1) committed, 2) assigned, 3) unassigned.

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications – Comparative data is not included in the District's financial statements.

Use of Estimates- The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds – The school district did not have significant expenditure budget variances.

Note 3 – Deposits and Investments

As of June 30, 2014, the District had the following investments:

Investment type	Fair	Weighted	Standard	Portfolio
	Value	Average Maturity (years)	& Poor's Rating	%
Government Money Market funds	\$ 1,084,137	0.0027	AAA _m	27.87%
United States Treasury Bonds	2,806,163	11.6476	AAA _m	72.13%
Total Fair Value	<u>\$ 3,890,300</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>8.4024</u>		

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 3 – Deposits and Investments (Continued)

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. As of June 30, 2014, \$3,595,900 of the School District’s bank balance of \$4,080,619 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution’s trust department or agent, but not in the School District’s name.

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

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

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

Reconciliation of cash and investments:

Carrying value of deposits and investments:

Deposits-including Fiduciary Funds of \$200,153	\$ 3,741,600
Investments	3,890,300
Total	\$ 7,631,900

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

Cash-Fiduciary Fund	\$ 200,153
Cash and investments-District Wide	7,431,747
Total	\$ 7,631,900

Note 4 – Receivables

Receivables as of year-end for the school district’s individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Non-major and Other Funds	Total
Receivables:			
Various	\$ 41,935	\$ 50,000	\$ 91,935
Intergovernmental	3,110,372	54,268	3,164,640
Net Receivables	\$ 3,152,307	\$ 104,268	\$ 3,256,575

Belding Area Schools
Notes to Financial Statements
June 30, 2014

Note 4 – Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
Payments received prior to meeting all eligibility requirements:	<u>\$ 139,286</u>

Note 5 – Capital Assets

Capital Asset activity of the School District's Governmental activities was as follows:

	Balance June 30, 2013	Additions	Disposals and Adjustments	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 243,585	\$ 0	\$ 0	\$ 243,585
Work in Process	1,805,321	0	1,805,321	0
Subtotal	2,048,906	0	1,805,321	243,585
Capital assets being depreciated:				
Building and building improvements	58,796,224	2,936,269	236,142	61,496,351
Buses and other vehicles	1,470,975	212,961	51,522	1,632,414
Furniture and equipment	2,718,705	207,315	90,000	2,836,020
Subtotal	62,985,904	3,356,545	377,664	65,964,785
Accumulated depreciation:				
Building and building improvements	12,219,290	1,460,801	204,094	13,475,997
Buses and other vehicles	935,726	87,496	51,522	971,700
Furniture and equipment	1,356,249	173,891	90,000	1,440,140
Subtotal	14,511,265	1,722,188	345,616	15,887,837
Net capital assets being depreciated	48,474,639	1,634,357	32,048	50,076,948
Net capital assets	\$ 50,523,545	\$ 1,634,357	\$ 1,837,369	\$ 50,320,533

Depreciation expense was charged to activities of the school as follows:

Governmental Activities

Instruction	\$ 7,140
Support Services	245,905
Food Services	4,590
Unallocated	1,464,553
	\$ 1,722,188

Belding Area Schools
Notes to Financial Statements
June 30, 2014

Note 6 – Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due From	Fund Due To		Total
	General Fund	Other Nonmajor Funds	
Other Nonmajor Funds	40,268	0	40,268
Total	\$ 40,268	\$ 0	\$ 40,268

Interfund Transfers:

	Transfer Out		Total
	General Fund	Food Service	
Transfer in:			
General Fund-Administration	\$ 0	29,306	\$ 29,306
	\$ 0	\$ 29,306	\$ 29,306

Note 7 – Notes Payable

At June 30, 2014, the District had one outstanding state aid anticipation note. The note, dated August 20, 2013, matures on August 20, 2014. The note is secured by future state school aid payments.

Balance July 01, 2013	Additions	Payments	Balance June 30, 2014
\$ 1,300,000	\$ 1,500,000	\$ 1,300,000	\$ 1,500,000

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 severance pay, school bond loan fund payable and two leases.

Belding Area Schools
Notes to Financial Statements
June 30, 2014

Note 8 – Long-Term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 51,815,000	\$ 0	\$ 2,045,000	\$ 49,770,000	\$ 2,190,000
Total bonds payable	51,815,000	0	2,045,000	49,770,000	2,190,000
School Bond Loan Fund	6,933,760	2,785,948	0	9,719,708	0
Compensated Absences	166,893	619	0	167,512	0
Total other obligation	7,100,653	2,786,567	0	9,887,220	0
Total	<u>\$ 58,915,653</u>	<u>\$ 2,786,567</u>	<u>\$ 2,045,000</u>	<u>\$ 59,657,220</u>	<u>\$ 2,190,000</u>

Annual debt service requirements, to maturity for the above bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2015	\$ 2,190,000	\$ 2,927,024	\$ 5,117,024
2016	1,995,000	2,845,396	4,840,396
2017	1,600,000	2,754,918	4,354,918
2018	1,620,000	2,677,738	4,297,738
2019	1,635,000	2,597,974	4,232,974
2020-2024	8,330,000	11,807,298	20,137,298
2025-2029	21,400,000	6,708,700	28,108,700
2030-2034	5,000,000	2,990,500	7,990,500
2035-2039	5,000,000	1,333,500	6,333,500
2040	1,000,000	66,700	1,066,700
Total	<u>\$ 49,770,000</u>	<u>\$ 36,709,748</u>	<u>\$ 86,479,748</u>

Belding Area Schools
Notes to Financial Statements
June 30, 2014

General obligation bonds consist of:

\$9,370,000 bonded debt of February 19, 2008, due in annual installments of \$550,000 to \$1,090,000 through May 1, 2026, interest at 3.25% to 5.0%	\$ 7,225,000
\$3,725,000 bonded debt of March 2, 2006, due in annual installments of \$175,000 to \$295,000 through May 1, 2026; interest at 3.5% to 4.2%.	1,900,000
\$4,380,000 bonded debt of September 29, 2009, due in annual installments of \$170,000 to \$1,360,000 through May 1, 2016; interest at 1.38% to 4.29%.	1,845,000
\$15,000,000 bonded debt of May 13, 2010, due in annual installments of \$5,000,000 beginning May 1, 2025 through May 1, 2027; interest at 6.5% to 6.7%.	15,000,000
\$23,800,000 bonded debt of May 13, 2010, due in annual installments of \$700,000 to \$1,000,000 beginning May 1, 2016 through May 1, 2040; interest at 4.41% to 6.67%.	<u>23,800,000</u>
Subtotal - Bonds Payable	49,770,000
Plus: Premiums on bond issuances (net)	<u>276,161</u>
Subtotal - Bonds Payable	<u><u>\$ 50,046,161</u></u>

Michigan School Bond Loans – The School District has borrowed on various occasions from the Michigan School Bond Loan Revolving Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. At June 30, 2014 the interest rate was 3.52268%. The School District borrowed \$2,515,913 in principal during the fiscal year. The balances at June 30, 2014 are as follows:

Principal balance	\$ 9,201,041
Interest balance	<u>518,667</u>
Total	<u><u>\$ 9,719,708</u></u>

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 9 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for all risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 – Defined Benefit Pension Plan and Post Retirement Benefits

Plan Description – The District participates in the statewide Michigan Public School Employees' Retirement System (System) which 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 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.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

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

Benefit Provisions – Pension

Introduction

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 pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

Pension Reform 2010

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

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 10 – Defined Benefit Pension Plan and Post Retirement Benefits

Benefit Provisions – Pension (Continued)

Pension Reform 2012

On September 4, 2012, Public Act 300 of 2012 was enacted. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 – members voluntarily elected to increase their contributions to the pension fund, and retain the 1.5% pension factor in their pension formula; basic plan and MIP members rates are 4% and 7%, respectively. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

Option 2 – members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 – members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 – members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. These participants receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 10 – Defined Benefit Pension Plan and Post Retirement Benefits

Benefit Provisions – Pension (Continued)

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect out of the Pension Plus hybrid plan and become a qualified participant in the Defined Contribution plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect out of the Pension Plus hybrid plan, their participation in the Defined Contribution plan will be retroactive to their date of hire.

Funding Policy

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: 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. 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.

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 10 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System (MPSERS), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates of the employees' wages. These rates varied during the year based on plan coverage and options selected. The rates ranged from 29.35% to 31.52% of employee wages during the year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS were equal to the required contribution for those years.

The School District's contributions to MPSERS are as follows:

Fiscal Year Ending June 30,	Contributions to MPSERS
2014	\$ 2,605,888
2013	2,322,754
2012	2,319,942

In addition to the amounts paid above, the District received \$556,620 in State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

Benefit Provisions – Other Postemployment

Introduction

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

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 10 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Benefit Provisions – Other Postemployment (Continued)

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund, a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the Personal Healthcare Fund are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) account no later than their first date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare. Deferred or nonvested members on September 3, 2012 who are rehired on or after September 4, 2012, will contribute 3% contribution to retiree healthcare and will retain the subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they chose.

Those who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the health care funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet eligibility requirements may request a refund of their contributions. Similarly, if a retiree dies before the total value of the insurance subsidy paid equals the total value of the contributions the member made, and there are no eligible dependents, the beneficiary may request a refund of unused funds. Refunds of member contributions to the healthcare funding account are issued as a supplemental benefit paid out over a 60 month period.

Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.

A delayed subsidy applied to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 10 – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Benefit Provisions – Other Postemployment (Continued)

Under Public Act 300 of 2012, the State no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

1. They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
2. They will receive a credit into a Health Reimbursement Account at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a Personal Healthcare Fund participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a Personal Healthcare Fund participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility end (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the Personal Healthcare Fund 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the Personal Healthcare Fund 457 account.

Other Information

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

Belding Area Schools

Notes to Financial Statements

June 30, 2014

Note 11 – Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District believes such amounts, if any to be minimal.

Note 12 – Subsequent Event

Subsequent to year end, the District entered into an agreement to borrow \$1,900,000 as a state aid note maturing August, 2015. The note is secured by the full faith and credit of the District as well as pledged state aid.

Note 13 – Capital Projects

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the school district has complied with the applicable provisions of Sec. 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the Capital Projects Fund from the inception of the fund through the current fiscal year.

Revenue:	\$39,890,284
Expenditures:	\$39,388,066

Note 14 – Upcoming Accounting Pronouncement

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net position liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

Required Supplemental Information

Belding Area Schools
Required Supplemental Information
Budgetary Comparison Schedule- General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 1,861,793	\$ 1,698,108	\$ 1,689,264	\$ (8,844)
State sources	14,035,266	14,094,116	14,084,133	(9,983)
Federal sources	1,005,637	1,058,802	936,130	(122,672)
Other	303,364	641,944	690,685	48,741
Total revenues	17,206,060	17,492,970	17,400,212	(92,758)
Expenditures				
Instruction				
Basic programs	8,022,282	8,013,793	7,912,555	101,238
Added needs	3,046,760	3,007,331	2,944,436	62,895
Adult and continuing education	54,846	51,358	51,245	113
Support services				
Pupil	977,917	917,497	906,842	10,655
Instructional staff	440,664	476,198	393,659	82,539
General administration	382,711	377,686	365,553	12,133
School administration	1,256,054	1,247,810	1,224,359	23,451
Business and central services	3,294,548	3,545,396	3,527,435	17,961
Athletics	320,000	320,000	321,214	(1,214)
Community services	101,648	42,613	24,044	18,569
Other transactions	30,000	38,283	41,068	(2,785)
Total expenditures	17,927,430	18,037,965	17,712,410	325,555
Excess (deficiency) of revenues over expenditures	(721,370)	(544,995)	(312,198)	232,797
Other financing sources (uses)				
Operating transfers in	35,000	30,000	29,306	(694)
Total other financing sources (uses)	35,000	30,000	29,306	(694)
Excess (deficiency) of revenues over expenditures and other sources (uses)	\$ (686,370)	\$ (514,995)	(282,892)	\$ 232,103
Fund balances at beginning of year			2,813,205	
Fund balances at end of year			\$ 2,530,313	

See accompanying note to financial statements

Other Supplemental Information

Belding Area Schools
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue	Other Nonmajor Funds					Governmental Funds
	Food Service	2006 Refunding Debt	2008 Refunding Debt	2009-A Refunding Debt	2010-A School & Site	2010-B School & Site	Total
Assets							
Cash and investments	\$ 80,466	\$ 10,072	0	\$ 70,516	\$ 3,988,080	\$ 4,033	\$ 4,153,167
Accounts Receivable	50,000	0	0	0	0	0	50,000
Accrued interest receivable	0	0	0	0	50,268	0	50,268
Due from other funds	0	0	0	0	0	0	0
Due from other governments	50,722	203	0	1,418	1,845	80	54,268
Inventory of supplies - at cost	13,159	0	0	0	0	0	13,159
Total Assets	\$ 194,347	\$ 10,275	\$ 0	\$ 71,934	\$ 4,040,193	\$ 4,113	\$ 4,320,862
Liabilities							
Accounts payable	\$ 37,565	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37,565
Due to other funds	29,819	0	0	0	6,570	3,879	40,268
Salaries payable	8,649	0	0	0	0	0	8,649
Total Liabilities	76,033	0	0	0	6,570	3,879	86,482
Fund Balance							
Non-spendable-Inventory	13,159	0	0	0	0	0	13,159
Restricted	105,155	10,275	0	71,934	4,033,623	234	4,221,221
Total Fund Balance	118,314	10,275	0	71,934	4,033,623	234	4,234,380
Total Liabilities and Fund Balance	\$ 194,347	\$ 10,275	\$ 0	\$ 71,934	\$ 4,040,193	\$ 4,113	\$ 4,320,862

See accompanying notes to financial statements

Belding Area Schools
 Other Supplemental Information
 Combining Statement of Revenue, Expenditures
 and changes in fund balances
 Non Major Governmental Funds
 Year Ended June 30, 2014

	Special Revenue	Other Nonmajor Funds					Total Nonmajor Governmental Funds
	Food Service	2006 Refunding Debt	2008 Refunding Debt	2009-A Refunding Debt	2010-A School and Site	2010-B School and Site	
Revenues							
Local sources							
Property taxes	\$ 0	\$ 123,334	\$ 0	863,332	\$ 1,122,335	\$ 49,333	\$ 2,158,334
Lunch sales	186,453	0	0	0	0	0	186,453
Investment earnings	417	0	0	13	916,909	476,142	1,393,481
Total Local Sources	186,870	123,334	0	863,345	2,039,244	525,475	3,738,268
Federal and state sources							
State aid-matching funds	21,587	0	0	0	0	0	21,587
Federal aid	635,893	0	0	0	0	0	635,893
Federal commodities	56,534	0	0	0	0	0	56,534
Total Federal and State Sources	714,014	0	0	0	0	0	714,014
Total Revenues	900,884	123,334	0	863,345	2,039,244	525,475	4,452,282
Expenditures							
Food & supplies	402,290	0	0	0	0	0	402,290
Salaries & wages	139,403	0	0	0	0	0	139,403
Fringe benefits	48,509	0	0	0	0	0	48,509
Repairs & capital outlay	5,983	0	0	0	0	0	5,983
Other	252,692	0	0	0	0	0	252,692
Debt Service							
Redemption of Serial Bonds	0	295,000	1,090,000	660,000	0	0	2,045,000
Interest	0	88,700	340,176	94,267	995,000	1,477,888	2,996,031
Other	0	225	500	150	650	650	2,175
Total Expenditures	848,877	383,925	1,430,676	754,417	995,650	1,478,538	5,892,083
Excess (deficiency) of revenues over expenditures	52,007	(260,591)	(1,430,676)	108,928	1,043,594	(953,063)	(1,439,801)
Other financing sources (uses)							
Proceeds from SLRF	0	261,144	0	1,325,709	0	929,060	2,515,913
Operating transfers in (out)	(29,306)	0	1,430,676	(1,430,676)	0	0	(29,306)
Total Other Financing Sources	(29,306)	261,144	1,430,676	(104,967)	0	929,060	2,486,607
Excess (deficiency) of revenues over expenditures & other sources (uses)	22,701	553	0	3,961	1,043,594	(24,003)	1,046,806
Fund balances at beginning of year	95,613	9,722	0	67,973	2,990,029	24,237	3,187,574
Fund balances at end of year	<u>\$ 118,314</u>	<u>\$ 10,275</u>	<u>\$ 0</u>	<u>\$ 71,934</u>	<u>\$ 4,033,623</u>	<u>\$ 234</u>	<u>\$ 4,234,380</u>

Belding Area Schools
 Other Supplemental Information
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 Year Ended June 30, 2014

	2014		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Local sources	\$ 1,698,108	\$ 1,689,264	\$ (8,844)
State sources	14,094,116	14,084,133	(9,983)
Federal sources	1,058,802	936,130	(122,672)
Other	641,944	690,685	48,741
Total revenues	<u>17,492,970</u>	<u>17,400,212</u>	<u>(92,758)</u>
Expenditures			
Instruction			
Basic programs	8,013,793	7,912,555	101,238
Added needs	3,007,331	2,944,436	62,895
Adult and continuing education	51,358	51,245	113
Support services			
Pupil	917,497	906,842	10,655
Instructional staff	476,198	393,659	82,539
General administration	377,686	365,553	12,133
School administration	1,247,810	1,224,359	23,451
Business and central services	3,545,396	3,527,435	17,961
Athletics	320,000	321,214	(1,214)
Community services	42,613	24,044	18,569
Other transactions	38,283	41,068	(2,785)
Total expenditures	<u>18,037,965</u>	<u>17,712,410</u>	<u>325,555</u>
Excess (deficiency) of revenues over expenditures	<u>(544,995)</u>	<u>(312,198)</u>	<u>232,797</u>
Other financing sources (uses)			
Operating transfers in	<u>30,000</u>	<u>29,306</u>	<u>(694)</u>
Total other financing sources (uses)	<u>30,000</u>	<u>29,306</u>	<u>(694)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>\$ (514,995)</u>	<u>(282,892)</u>	<u>\$ 232,103</u>
Fund balances at beginning of year		<u>2,813,205</u>	
Fund balances at end of year		<u>\$ 2,530,313</u>	

See accompanying notes to financial statements

Belding Area Schools
 Other Supplemental Information
 Special Revenue Funds
 Statement of Revenues, Expenditures, and
 Changes in Fund Balance- Budget and Actual
 Year Ended June 30, 2014

	Food Service		Difference
	Budget	Actual	
Revenues			
Local sources			
Lunch sales	\$ 166,549	\$ 186,453	\$ 19,904
Interest	371	417	46
Total Local Sources	166,920	186,870	19,950
Federal and state sources			
State aid-matching funds	25,600	21,587	(4,013)
Federal aid	597,650	635,893	38,243
Federal commodities	60,000	56,534	(3,466)
Total Federal and State Sources	683,250	714,014	30,764
Total Revenues	850,170	900,884	50,714
Expenditures			
Food & supplies	392,713	402,290	(9,577)
Salaries & wages	136,080	139,403	(3,323)
Fringe benefits	47,355	48,509	(1,154)
Repairs & capital outlay	5,841	5,983	(142)
Other	246,651	252,692	(6,041)
Total Expenditures	828,640	848,877	(20,237)
Excess (deficiency) of revenues over expenditures	21,530	52,007	30,477
Other financing sources (uses)			
Operating transfers in(out)	(25,000)	(29,306)	4,306
Excess (deficiency) of revenues over expenditures & other sources (uses)	<u>\$ (3,470)</u>	22,701	<u>\$ 26,171</u>
Fund balances at beginning of year		<u>95,613</u>	
Fund balances at end of year		<u>\$ 118,314</u>	

See accompanying notes to financial statements

Belding Area Schools
 Other Supplemental Information
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 Year Ended June 30, 2014

Student Activity Funds

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Assets				
Cash And Cash Equivalents	\$ 218,930	\$ 426,609	\$ 445,386	\$ 200,153
Liabilities				
Due To Student Groups	\$ 218,930	\$ 426,609	\$ 445,386	\$ 200,153

Belding Area Schools
Other Supplemental Information
Schedule of Bonded Debt
2006 Refunding Bonds
June 30, 2014

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
2015	4.00%	\$ 180,000	\$ 38,450	\$ 38,450	\$ 256,900
2016	4.00%	170,000	34,850	34,850	239,700
2017	4.00%	170,000	31,450	31,450	232,900
2018	4.00%	165,000	28,050	28,050	221,100
2019	4.00%	165,000	24,750	24,750	214,500
2020	4.00%	150,000	21,450	21,450	192,900
2021	4.00%	150,000	18,450	18,450	186,900
2022	4.00%	150,000	15,450	15,450	180,900
2023	4.10%	150,000	12,450	12,450	174,900
2024	4.10%	150,000	9,375	9,375	168,750
2025	4.20%	150,000	6,300	6,300	162,600
2026	4.20%	150,000	3,150	3,150	156,300
Total		<u>\$ 1,900,000</u>	<u>\$ 244,175</u>	<u>\$ 244,175</u>	<u>\$ 2,388,350</u>

Purpose- To refund the 1996 Bonds. The purpose of the 1996 bonds was to erect, furnish and equip a new elementary school and playgrounds; to erect, furnish and equip and addition or additions to and/or partially remodel, refurbish and re-equip the Ellis Elementary School and the High School; partially remodel for and install educational technology in school facilities; partially remodel, refurbish and re-equip the Hallpark School for an athletic facility; acquire additional land for site purposes; construct, develop and improve sites, playgrounds, outdoor physical education fields and athletic facilities and refunding all of the 1992 construction bonds.

Belding Area Schools
 Other Supplemental Information
 Schedule of Bonded Debt
 2008 Refunding Bonds
 June 30, 2014

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
2015	5.00%	\$ 650,000	\$ 152,375	\$ 152,375	\$ 954,750
2016	5.00%	640,000	141,000	141,000	922,000
2017	5.00%	630,000	125,000	125,000	880,000
2018	5.00%	630,000	109,250	109,250	848,500
2019	5.00%	620,000	93,500	93,500	807,000
2020	5.00%	615,000	81,100	81,100	777,200
2021	5.00%	600,000	68,800	68,800	737,600
2022	5.00%	595,000	56,800	56,800	708,600
2023	5.00%	575,000	44,900	44,900	664,800
2024	5.00%	570,000	33,400	33,400	636,800
2025	5.00%	550,000	22,000	22,000	594,000
2026	5.00%	550,000	11,000	11,000	572,000
Total		<u>\$ 7,225,000</u>	<u>\$ 939,125</u>	<u>\$ 939,125</u>	<u>\$ 9,103,250</u>

Purpose - Refunding the Schools District's 1998 Refunding Bonds dated February 28, 1998, which are callable on or after May 1, 2008, and are due and payable May 1, 2009 through May 1, 2014, inclusive, May 1, 2018 and May 1, 2026, and paying the costs of issuing the Bonds.

Belding Area Schools
 Other Supplemental Information
 Schedule of Bonded Debt
 2009 Refunding Bonds - Series A
 June 30, 2014

<u>Year Ended June 30</u>	<u>Interest Rate</u>	<u>Principal May 1</u>	<u>Interest</u>		<u>Total Debt Requirement</u>
			<u>November 1</u>	<u>May 1</u>	
2015	3.80%	\$ 1,360,000	\$ 36,243	\$ 36,243	\$ 1,432,486
2016	4.29%	<u>485,000</u>	<u>10,404</u>	<u>10,404</u>	<u>505,808</u>
Total		<u>\$ 1,845,000</u>	<u>\$ 46,647</u>	<u>\$ 46,647</u>	<u>\$ 1,938,294</u>

Purpose - Refunding the Schools District's 1998 Refunding Bonds dated February 28, 1998, which are callable on or after May 1, 2008, and are due and payable May 1, 2009 through May 1, 2014, inclusive, May 1, 2018 and May 1, 2026, and paying the costs of issuing the Bonds.

Belding Area Schools
 Other Supplemental Information
 Schedule of Bonded Debt
 2010 School Building and Site Bonds - Series A
 June 30, 2014

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
2015			\$ 497,500	\$ 497,500	\$ 995,000
2016			497,500	497,500	995,000
2017			497,500	497,500	995,000
2018			497,500	497,500	995,000
2019			497,500	497,500	995,000
2020			497,500	497,500	995,000
2021			497,500	497,500	995,000
2022			497,500	497,500	995,000
2023			497,500	497,500	995,000
2024			497,500	497,500	995,000
2025	6.50%	\$ 5,000,000	497,500	497,500	5,995,000
2026	6.70%	5,000,000	335,000	335,000	5,670,000
2027	6.70%	5,000,000	167,500	167,500	5,335,000
	Total	<u>\$ 15,000,000</u>	<u>\$ 5,975,000</u>	<u>\$ 5,975,000</u>	<u>\$ 19,985,000</u>

Purpose - Refunding the Schools District's 1998 Refunding Bonds dated February 28, 1998, which are callable on or after May 1, 2008, and are due and payable May 1, 2009 through May 1, 2014, inclusive, May 1, 2018 and May 1, 2026, and paying the costs of issuing the Bonds.

Belding Area Schools
 Other Supplemental Information
 Schedule of Bonded Debt
 2010 School Building and Site Bonds - Series B
 June 30, 2014

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
2015			\$ 738,944	\$ 738,944	\$ 1,477,888
2016	4.41%	\$ 700,000	738,944	738,944	2,177,888
2017	4.86%	800,000	723,509	723,509	2,247,018
2018	5.05%	825,000	704,069	704,069	2,233,138
2019	5.15%	850,000	683,237	683,237	2,216,474
2020	5.30%	875,000	661,350	661,350	2,197,700
2021	5.75%	900,000	638,162	638,162	2,176,324
2022	5.75%	925,000	612,287	612,287	2,149,574
2023	6.15%	950,000	585,694	585,694	2,121,388
2024	6.15%	975,000	556,481	556,481	2,087,962
2025	6.25%	1,000,000	526,500	526,500	2,053,000
2026	6.52%	1,000,000	495,250	495,250	1,990,500
2027	6.52%	1,000,000	462,650	462,650	1,925,300
2028	6.52%	1,000,000	430,050	430,050	1,860,100
2029	6.52%	1,000,000	397,450	397,450	1,794,900
2030	6.52%	1,000,000	364,850	364,850	1,729,700
2031	6.62%	1,000,000	332,250	332,250	1,664,500
2032	6.62%	1,000,000	299,150	299,150	1,598,300
2033	6.62%	1,000,000	266,050	266,050	1,532,100
2034	6.62%	1,000,000	232,950	232,950	1,465,900
2035	6.62%	1,000,000	199,850	199,850	1,399,700
2036	6.67%	1,000,000	166,750	166,750	1,333,500
2037	6.67%	1,000,000	133,400	133,400	1,266,800
2038	6.67%	1,000,000	100,050	100,050	1,200,100
2039	6.67%	1,000,000	66,700	66,700	1,133,400
2040	6.67%	1,000,000	33,350	33,350	1,066,700
	Total	<u>\$ 23,800,000</u>	<u>\$ 11,149,927</u>	<u>\$ 11,149,927</u>	<u>\$ 46,099,854</u>

Purpose - Refunding the Schools District's 1998 Refunding Bonds dated February 28, 1998, which are callable on or after May 1, 2008, and are due and payable May 1, 2009 through May 1, 2014, inclusive, May 1, 2018 and May 1, 2026, and paying the costs of issuing the Bonds.

Federal Programs

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

Board of Education
Belding Area Schools
Belding, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belding Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Belding Area Schools' basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

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 District'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 Belding Area 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Biggs, Hausserman, Thompson & Dickinson, P.C.

BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Saranac, MI

October 31, 2014



REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT OR MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Belding Area Schools
Belding, Michigan

Report on Compliance for Each Major Federal Program

We have audited Belding Area Schools compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Belding Area Schools major federal programs for the year ended June 30, 2014. Belding Area Schools major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Belding Area Schools major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Belding Area Schools compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Belding Area Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Belding Area Schools, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Belding Area Schools internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Belding Area Schools internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Biggs, Hausserman, Thompson & Dickinson, P.C.

BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Saranac, MI

October 31, 2014

Belding Area Schools
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Belding Area Schools.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Belding Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Belding Area Schools expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in Part C of this Schedule. There are no findings for the year ended June 30, 2014.
7. The programs tested as a major programs include: CFDA #84.010 and #84.011. Total expenditures were \$762,576.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Belding Area Schools was determined to be a low-risk auditee.

B. Findings--Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

Belding Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue at July 1, 2013	(Memo Only) Prior Year Expenditures	Current-Year Expenditures	Current-Year Federal Revenue Received	Accrued or (Deferred) Revenue at June 30, 2014	Adjustments
U.S. Department of Agriculture								
Child Nutrition Cluster								
Passed through the Michigan Department of Education National School Lunch/Breakfast/Summer Program								
Summer	10.559							
Project number 140900		\$ 1,199	\$ 0	\$ 0	\$ 1,199	\$ 0	\$ 1,199	\$ 0
Project number 141900		0	0	0	0	0	0	0
Project number 131900		2,336	233	233	2,103	2,336	0	0
Project number 130900		25,715	2,513	2,513	23,202	25,715	0	0
Total Summer		29,250	2,746	2,746	26,504	28,051	1,199	0
Lunch-Cash	10.555							
Project number 131960		406,528	0	353,054	53,474	53,474	0	0
Project number 141960		374,275	0	0	374,274	345,000	29,274	0
Total Lunch-Cash		780,803	0	353,054	427,748	398,474	29,274	0
Lunch-commodities								
Entitlement		56,534	0	0	56,534	56,534	0	0
Bonus		0	0	0	0	0	0	0
Total Commodities		56,534	0	0	56,534	56,534	0	0
Total lunch		837,337	0	353,054	484,282	455,008	29,274	0
Breakfast	10.553							
Project number 131970		181,811	0	158,684	23,127	23,127	0	0
Project number 141970		157,165	0	0	157,165	141,695	15,470	0
Total Breakfast		338,976	0	158,684	180,292	164,822	15,470	0
Total Child Nutrition Cluster		1,205,563	2,746	514,484	691,078	647,881	45,943	0
Child Care Food Program	10.558							
Project number 141920		1,349	0	0	1,349	1,229	120	0
Project number 132010		0	0	0	0	0	0	0
Project number 122010		0	0	0	0	0	0	0
Total Child Care Food		1,349	0	0	1,349	1,229	120	0
Total U.S. Department of Agriculture		1,206,912	2,746	514,484	692,427	649,110	46,063	0
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I, Part A Cluster								
Title I	84.010 *							
Project number 131530-1213		594,128	257,335	547,774	0	257,335	0	0
Project number 141530-1314		493,861	0	0	441,186	320,832	120,354	0
Total Title 1, Part A Cluster		1,087,989	257,335	547,774	441,186	578,167	120,354	0

Belding Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue at July 1, 2013	(Memo Only) Prior Year Expenditures	Current-Year Expenditures	Current-Year Federal Revenue Received	Accrued or (Deferred) Revenue at June 30, 2014	Adjustments
Title 1 - Migrant	84.011 *							
Project number 131830-1213		138,187	29,080	29,080	104,289	133,369	0	0
Project number 141830-1314		132,814	0	0	13,384	0	13,384	0
Project number 131890-1213		285,796	95,002	197,022	0	95,002	0	0
Project number 141890-1314		220,143	0	0	203,717	165,902	37,815	0
Total Title 1 - Migrant		<u>776,940</u>	<u>124,082</u>	<u>226,102</u>	<u>321,390</u>	<u>394,273</u>	<u>51,199</u>	<u>0</u>
Title III LEP	84.365							
Project number 140580-1314		46,982	0	0	37,898	32,586	5,312	0
Project number 130580-1213		68,160	22,974	62,894	0	22,974	0	0
Total Title III LEP		<u>115,142</u>	<u>22,974</u>	<u>62,894</u>	<u>37,898</u>	<u>55,560</u>	<u>5,312</u>	<u>0</u>
Title IIA - Improving Teacher Quality	84.367							
Project number 130520-1213		129,154	18,302	119,170	0	18,302	0	0
Project number 140520-1314		123,629	0	0	99,656	83,984	15,672	0
Total Title IIA		<u>252,783</u>	<u>18,302</u>	<u>119,170</u>	<u>99,656</u>	<u>102,286</u>	<u>15,672</u>	<u>0</u>
Adult Education-State Administerer	84.002							
Project number 131130-131913		40,000	40,000	40,000	0	40,000	0	0
Project number 141130-141913		36,000	0	0	36,000	35,645	355	0
Total Adult Education		<u>76,000</u>	<u>40,000</u>	<u>40,000</u>	<u>36,000</u>	<u>75,645</u>	<u>355</u>	<u>0</u>
Total U.S. Department of Education		<u>2,308,854</u>	<u>462,693</u>	<u>995,940</u>	<u>936,130</u>	<u>1,205,931</u>	<u>192,892</u>	<u>0</u>
Total federal financial assistance		<u>\$ 3,515,766</u>	<u>\$ 465,439</u>	<u>\$ 1,510,424</u>	<u>\$ 1,628,557</u>	<u>\$ 1,855,041</u>	<u>\$ 238,955</u>	<u>\$ 0</u>

* = Major program

Belding Area Schools
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

NOTE A: *Designates a major program.

NOTE B: Basis of Presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the grant activity of Belding Area Schools under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Belding Area Schools, it is not intended to and does not present financial position or changes in net position of Belding Area Schools.

NOTE C: Summary of Significant Accounting Policies – Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE D: The Title 1 and Title 1-Migrant (CFDA #84.010 and 84.011) were audited as the major programs, representing 47% of expenditures. The District did qualify for low risk auditee status.

NOTE E: The threshold for distinguishing Type A and Type B programs was \$300,000.

NOTE F: Management has utilized the Grant Auditors’ Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE G: Federal expenditures are reported as revenue in the following funds in the financial.

General fund	\$ 936,130
Other nonmajor governmental fund	692,427
Total per financial statements	<u>\$ 1,628,557</u>

Belding Area Schools
Schedule of Prior Audit Findings
June 30, 2014

Prior Audit Findings

None

To the Board of Education
Belding Area Schools
Lake Odessa, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Belding Area Schools for the year ended June 30, 2014, and have issued our report thereon dated October 31, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 5, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters on June 23, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Belding Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were: management's estimated lives of capital assets and their estimate of the liability of the payout of employee compensated absences. We evaluated the key factors and assumptions used to develop the estimated life span of capital assets and the estimated value of compensated absences in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. . However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,

Biggs, Hausserman, Thompson & Dickinson, P.C.

Biggs, Hausserman, Thompson & Dickinson, P.C.
Saranac, MI

October 31, 2014