

Belding Area Schools

**Financial Statements
With Supplemental Information**
June 30, 2015

Belding Area Schools

June 30, 2015
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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, 2015, 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, 2015, 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.

Emphasis of matter – Change in Accounting Principle

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pension* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 26, 2015 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 26, 2015

Management's Discussion and Analysis

Belding Area Schools

Management's Discussion and Analysis

June 30, 2015

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, 2015.

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 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.

Belding Area Schools

Management's Discussion and Analysis

June 30, 2015

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, 2015

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, 2015 and 2014:

Table 1:

	Governmental Activities	
	2015	2014
Current and other assets	\$ 11,655,572	\$ 11,408,194
Capital assets	48,990,274	50,320,533
Total assets	60,645,846	61,728,727
Deferred outflows of resources	1,956,598	274,674
Current and other liabilities	6,082,087	6,603,629
Long-term liabilities	81,179,920	57,743,381
Total liabilities	87,262,007	64,347,010
Deferred inflows of resources	1,657,824	-
Net position		
Net investment in capital assets	(10,334,935)	(8,651,995)
Restricted for capital projects	-	502,218
Restricted for debt service	4,847,978	3,826,922
Restricted for food service	150,206	118,314
Unrestricted	(20,980,636)	1,860,932
Total net position	\$ (26,317,387)	\$ (2,343,609)

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 \$(26,317,387) at June 30, 2015. Invested in capital assets, net of related debt totaling \$(10,334,935) 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 \$4,847,978 and food service totaled \$150,206. The remaining amount of net position, \$(20,980,636), was unrestricted.

The \$(20,980,636) 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.

GASB 68 Accounting and Financial Reporting for Pensions and GASB 71 Pension Transition for Contributions Made Subsequent to the Measurement Date were implemented during 2015. This requires the reporting of the entity's proportionate share of the net pension liability of MPERS, along with applicable deferred inflows/outflows of resources.

Belding Area Schools
Management's Discussion and Analysis
June 30, 2015

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 2015 and 2014.

Table 2:

Statement of Activities Summary		
Governmental Activities		
	2015	2014
Revenues		
Program revenues		
Charges for services	\$ 357,726	\$ 378,974
Grants and Categoricals	4,423,844	4,144,375
General Revenues		
Property taxes	3,792,913	3,594,501
State foundation allowance	12,566,536	12,280,585
Other general revenues	1,336,630	1,436,689
Total revenues	22,477,649	21,835,124
Functions/Program Expenses		
Instruction	11,557,788	10,907,230
Support services	7,261,448	7,000,474
Food services	866,837	853,215
Community service	36,924	24,044
Interest on long-term debt	3,276,312	3,256,167
Depreciation (unallocated)	1,532,684	1,464,553
Total expenses	24,531,993	23,505,683
Increase (decrease) in net position	\$ (2,054,344)	\$ (1,670,559)

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$24,531,993. Certain activities were partially funded from those who benefited from the program (\$357,726) or by governments and organizations that subsidized certain programs with grants and categorical (\$4,423,844). We paid for the remaining "public benefit" portion of our governmental activities with \$3,792,913 in taxes, \$12,566,536 in state Foundation Allowance, and with our other revenues, like interest and general entitlements.

The School District experienced a decrease in net position of \$2,054,344. Some reasons were a decrease in investment income due to spending down capital project funds and depreciation on significant new assets that were placed in service. Also, pension expense increased in the initial year of GASB 68 implementation.

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.

Belding Area Schools

Management's Discussion and Analysis

June 30, 2015

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 \$7,827,227 which is an increase of \$560,316 from last year. The primary reasons for these are:

Our general fund is our principal operating fund. The fund balance in the general fund increased \$23,190 to \$2,553,503. The increase is largely due to a larger increase in revenue than expenditures.

Our special revenue fund showed a net increase of \$31,891.

The debt service funds showed an increase of \$1,007,452. 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 \$502,218 as projects from the 2010 bonds were completed.

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 \$944,857 from the original budget. These were various amendments to properly reflect revenues based on more current information.

Budget expenditures were increased \$561,181 to more closely reflect program expenditures.

Belding Area Schools
 Management's Discussion and Analysis
 June 30, 2015

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the School District had \$48,990,274 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 \$1,330,259, or 2.65%, from last year.

Capital Assets at Year-End

	June 30, 2015	June 30, 2014
Land	\$ 243,585	\$ 243,585
Buildings	46,993,503	48,020,354
Buses and other vehicles	589,954	660,714
Furniture and equipment	1,163,232	1,395,880
Total capital assets	\$ 48,990,274	\$ 50,320,533

The change is mostly attributable to this year's additions (\$513,326) of various improvements mostly related to the 2010 bond projects and depreciation (\$1,803,158) of existing capital assets.

Capital Asset and Debt Administration (Continued)

Debt

At the end of this year, the School District had \$47,580,000 in bonds outstanding versus \$49,770,000 last year - a decrease of \$2,190,000. Those bonds consisted of:

Outstanding Debt at Year-End

	June 30, 2015	June 30, 2014
General obligation bonds	\$ 47,580,000	\$ 49,770,000

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 \$47,580,000 is below the statutory imposed limit. Other obligations include termination benefits.

The borrowings and accrued interest owed to the School Bond Loan fund were increased during the year by \$2,903,518. The balance at the end of the year is \$12,623,226, including accrued interest.

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

Belding Area Schools
Management's Discussion and Analysis
June 30, 2015

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2015-2016 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.

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, 2015

	Governmental Activities
Assets	
Current Assets	
Cash and investments	\$ 7,697,579
Accounts receivable	134,075
Due from other governments	3,493,974
Inventory	296,746
Prepaid expense	33,198
Total current assets	11,655,572
Noncurrent Assets	
Capital assets	66,640,992
Less: accumulated depreciation	(17,650,718)
Total noncurrent assets	48,990,274
Total Assets	60,645,846
Deferred Outflows of Resources	
Deferred charges, net of amortization	252,234
Deferred pension payments	1,704,364
Total Deferred Outflow of Resources	1,956,598
Liabilities	
Current Liabilities	
Accounts payable	242,113
Salaries and withholdings payable	1,157,262
Due to other governments	206,530
Accrued interest payable	474,233
Unearned revenue	106,949
Notes payable	1,900,000
Long-term liabilities due within one year	
Bonds payable- due within one year	1,995,000
Total Current Liabilities	6,082,087
Noncurrent Liabilities	
Bonds and other loans payable	58,461,374
Compensated absences, not due within one year	207,235
Net pension liability	22,511,311
Total Noncurrent Liabilities	81,179,920
Total Liabilities	87,262,007
Deferred Inflows of Resources	
Deferred charges, net of amortization	1,657,824
Net Position	
Net investment in capital assets	(10,334,935)
Restricted for:	
Debt service	4,847,978
Food service	150,206
Unrestricted	(20,980,636)
Total Net Position	\$ (26,317,387)

See accompanying notes to financial statements

Belding Area Schools
Statement of Activities
June 30, 2015

	Program Revenues			Governmental Activities
Expenses	Charges for Service	Operating Grants	Net (Expenses) Revenues and Changes in Net Assets	
Governmental activities:				
Instruction	\$ 11,557,788	\$ 16,041	\$ 3,392,151	\$ (8,149,596)
Support services	7,261,448	153,046	277,548	(6,830,854)
Food service	866,837	176,090	754,145	63,398
Community services	36,924	12,549	0	(24,375)
Interest on long- term debt	3,276,312	0	0	(3,276,312)
Depreciation (unallocated)	1,532,684	0	0	(1,532,684)
Total governmental activities	\$ 24,531,993	\$ 357,726	\$ 4,423,844	(19,750,423)
General revenues:				
Taxes				
Property taxes, levied for general purpose			1,507,561	
Property taxes, levied for debt service			2,285,352	
State aid not restricted to specific purposes			12,566,536	
Interest and investment earnings			1,300,705	
Other			35,925	
		Total general revenues	17,696,079	
Changes in Net Position				(2,054,344)
Net Position-Beginning of year, as restated				(24,263,043)
Net Position-End of year				\$ (26,317,387)

See accompanying notes to financial statements

Fund Financial Statements

Belding Area Schools
Governmental Funds
Balance Sheet
June 30, 2015

	General	Capital Projects	2010-A Building & Site Debt Fund	Other Non-Major Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 2,426,366	\$ 0	\$ 5,057,797	\$ 213,416	\$ 7,697,579
Accounts receivable	84,075	0	0	50,000	134,075
Accrued interest receivable	0	0	0	0	0
Due from other funds	49,352	0	0	0	49,352
Due from other governments	3,270,203	0	1,850	6,430	3,278,483
Inventory	280,349	0	0	16,397	296,746
Prepaid expenses	33,198	0	0	0	33,198
Total assets	\$ 6,143,543	\$ 0	\$ 5,059,647	\$ 286,243	\$ 11,489,433
Liabilities and Fund Equity					
Liabilities					
Accounts payable	\$ 219,636	\$ 0	\$ 0	\$ 22,477	\$ 242,113
Salaries and withholdings payable	1,156,925	0	0	337	1,157,262
Due to other funds	0	0	6,570	42,782	49,352
Due to other governments	206,530	0	0	0	206,530
Unearned revenue	106,949	0	0	0	106,949
Notes payable	1,900,000	0	0	0	1,900,000
Total Liabilities	3,590,040	0	6,570	65,596	3,662,206
Fund Equity					
Fund balances					
Non-spendable for:					
Inventory	280,349	0	0	16,397	296,746
Prepaid expenditures	33,198	0	0	0	33,198
Restricted	0	0	5,053,077	204,250	5,257,327
Assigned					
Compensated absences	207,235	0	0	0	207,235
Subsequent year budget usage	222,612	0	0	0	222,612
Unassigned	1,810,109	0	0	0	1,810,109
Total fund equity	2,553,503	0	5,053,077	220,647	7,827,227
Total liabilities and fund equity	\$ 6,143,543	\$ 0	\$ 5,059,647	\$ 286,243	\$ 11,489,433

Belding Area Schools
 Governmental Funds
 Reconciliation of Balance Sheet of Governmental Funds to Net Position
 June 30, 2015

Total fund Balances- Governmental Funds **\$ 7,827,227**

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	252,234	
Capital assets cost:	66,640,992	
Accumulated depreciation:	<u>(17,650,718)</u>	
Net Capital Assets		49,242,508

Deferred outflows for pension expenditures after plan year		1,704,364
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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	(60,456,374)	
Accrued Interest-net	(258,742)	
Compensated absences	(207,235)	
Net pension liability	<u>(22,511,311)</u>	
Total liabilities		(83,433,662)

Net deferred inflows regarding pension plan		(1,657,824)
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Net Position of Governmental Activities		<u>\$ (26,317,387)</u>
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Belding Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	General	Capital Projects	2010-A Building and Site Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 1,735,105	\$ 8	\$ 2,015,979	\$ 1,744,534	\$ 5,495,626
State sources	14,781,103	0	0	28,634	14,809,737
Federal sources	939,652	0	0	725,511	1,665,163
Other	547,549	0	0	0	547,549
Total revenues	18,003,409	8	2,015,979	2,498,679	22,518,075
Expenditures					
Instruction					
Basic programs	8,228,237	0	0	0	8,228,237
Added needs	2,905,946	0	0	0	2,905,946
Adult and continuing education	51,182	0	0	0	51,182
Support services					
Pupil	760,876	0	0	0	760,876
Instructional staff	488,596	0	0	0	488,596
General administration	377,678	0	0	0	377,678
School administration	1,218,880	0	0	0	1,218,880
Business and central services	3,416,895	0	0	0	3,416,895
Athletics	379,408	0	0	0	379,408
Food service	0	0	0	860,544	860,544
Community services	36,924	0	0	0	36,924
Other transactions	153,397	0	0	0	153,397
Capital outlay-bonds	0	502,226	0	0	502,226
Debt services					
Redemption of bonds/notes	0	0	0	2,190,000	2,190,000
Interest and fiscal charges	0	0	996,525	1,933,700	2,930,225
Total expenditures	18,018,019	502,226	996,525	4,984,244	24,501,014
Excess (deficiency) of revenues over expenditures	(14,610)	(502,218)	1,019,454	(2,485,565)	(1,982,939)
Other financing sources (uses)					
Proceeds from SLRF	0	0	0	2,543,254	2,543,254
Operating transfers in	37,800	0	0	0	37,800
Operating transfers out	0	0	0	(37,800)	(37,800)
Total other financing sources (uses)	37,800	0	0	2,505,454	2,543,254
Excess (deficiency) of revenues over expenditures and other sources (uses)	23,190	(502,218)	1,019,454	19,889	560,315
Fund balances at beginning of year	2,530,313	502,218	4,033,623	200,758	7,266,912
Fund balances at end of year	\$ 2,553,503	\$ 0	\$ 5,053,077	\$ 220,647	\$ 7,827,227

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, 2015

Net Change in fund Balances- Total Governmental funds \$ **560,315**

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	(1,803,158)
Capital outlay	513,326
Gain adjustment on asset disposals, net book value	(40,426)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(346,660)
--	-----------

Net pension expense	(545,337)
---------------------	-----------

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	2,190,000
Proceeds from debt issuances	(2,543,254)
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	(39,723)
--	----------

Net Change in Net Position- Governmental Activities	\$ (2,054,344)
---	-----------------------

Belding Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	<u>Agency Funds- Student Activities</u>
Assets	
Cash and Cash Equivalents	<u>\$ 203,356</u>
Liabilities	
Due to Student groups	<u>\$ 203,356</u>

See accompanying notes to financial statements

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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, 2015

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.

Belding Area Schools

Notes to Financial Statements

June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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, 2015 is \$176,000.

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, 2015

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 two items that qualify for reporting in this category. The first item 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. The second item is pension contributions made after the valuation date of the cost-sharing pension plan.

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 one item that qualifies for reporting in this category. It is the proportionate share of deferred pension inflows from the cost-sharing pension plan. This is amortized per the pension plan.

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. \$222,612 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.

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

Belding Area Schools
Notes to Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 2015, the District had the following investments:

Investment type	Fair Value	Average Maturity (years)	Standard & Poor's Rating	Portfolio %
Government Money Market funds	\$ 1,048	0.0027	AAAm	0.02%
United States Treasury Strips	4,767,550	10.6402	AAAm	99.98%
Total Fair Value	\$ 4,768,597			100.00%
Portfolio weighted average maturity		<u>10.6303</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).

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, 2015, \$2,700,122 of the School District's bank balance of \$3,197,141 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.

Belding Area Schools

Notes to Financial Statements

June 30, 2015

Note 3 – Deposits and Investments (Continued)

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 \$203,356	\$ 3,132,338
Investments	4,768,597
Total	<u>\$ 7,900,935</u>

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

Cash-Fiduciary Fund	\$ 203,356
Cash and investments-District Wide	7,697,579
Total	<u>\$ 7,900,935</u>

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	2010-A Building & Site Debt Fund	Non-major and Other Funds	Total
Receivables:				
Various	\$ 84,075	0	50,000	\$ 134,075
Intergovernmental	3,270,203	1,850	6,430	3,278,483
Net Receivables	<u>\$ 3,354,278</u>	<u>1,850</u>	<u>56,430</u>	<u>\$ 3,412,558</u>

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:

Payments received prior to meeting all eligibility requirements:	<u>Unearned</u>
	<u>\$ 106,949</u>

Belding Area Schools
Notes to Financial Statements
June 30, 2015

Note 5 – Capital Assets

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

	Balance June 30, 2014	Additions	Disposals and Adjustments	Balance June 30, 2015
Assets not being depreciated:				
Land	\$ 243,585	\$ 0	\$ 0	\$ 243,585
Subtotal	243,585	0	0	243,585
Capital assets being depreciated:				
Building and building improvements	61,496,351	427,523	0	61,923,874
Buses and other vehicles	1,632,414	85,803	0	1,718,217
Furniture and equipment	2,836,020	0	80,704	2,755,316
Subtotal	65,964,785	513,326	80,704	66,397,407
Accumulated depreciaton:				
Building and building improvements	13,475,997	1,454,374	0	14,930,371
Buses and other vehicles	971,700	156,563	0	1,128,263
Furniture and equipment	1,440,140	192,221	40,277	1,592,084
Subtotal	15,887,837	1,803,158	40,277	17,650,718
Net capital assets being depreciated	50,076,948	(1,289,832)	40,427	48,746,689
Net capital assets	\$ 50,320,533	\$ (1,289,832)	\$ 40,427	\$ 48,990,274

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

Governmental Activities

Instruction	\$ 7,213
Support Services	257,852
Food Services	5,409
Unallocated	1,532,684
	<u>\$ 1,803,158</u>

Belding Area Schools

Notes to Financial Statements

June 30, 2015

Note 6 – Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due From	Fund Due To			Total
	General Fund	2010-A Building & Site Debt Fund	Other Nonmajor Funds	
2010-A Debt Fund	6,570	0	0	6,570
Other Nonmajor Funds	42,782	0	0	42,782
Total	\$ 49,352	\$ 0	\$ 0	\$ 49,352

Interfund Transfers:

	Transfer Out		Total
	General Fund	Food Service	
Transfer in:			
General Fund-Administration	\$ 0	37,800	\$ 37,800
	\$ 0	\$ 37,800	\$ 37,800

Note 7 – Notes Payable

At June 30, 2015, 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, 2014	Additions	Payments	Balance June 30, 2015
\$ 1,500,000	\$ 1,900,000	\$ 1,500,000	\$ 1,900,000

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, 2015

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	\$ 49,770,000	\$ 0	\$ 2,190,000	\$ 47,580,000	\$ 1,995,000
Total bonds payable	49,770,000	0	2,190,000	47,580,000	1,995,000
School Bond Loan Fund	9,719,708	2,903,518	0	12,623,226	0
Compensated Absences	167,512	39,723	0	207,235	0
Total other obligation	9,887,220	2,943,241	0	12,830,461	0
Total	<u>\$ 59,657,220</u>	<u>\$ 2,943,241</u>	<u>\$ 2,190,000</u>	<u>\$ 60,410,461</u>	<u>\$ 1,995,000</u>

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

	Governmental Activities		
	Principal	Interest	Total
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	1,640,000	2,522,800	4,162,800
2021-2025	13,390,000	11,389,098	24,779,098
2026-2030	15,700,000	5,333,800	21,033,800
2031-2035	5,000,000	2,660,500	7,660,500
2036-2040	5,000,000	1,000,500	6,000,500
Total	<u>\$ 47,580,000</u>	<u>\$ 33,782,724</u>	<u>\$ 81,362,724</u>

Belding Area Schools
Notes to Financial Statements
June 30, 2015

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%	\$ 6,575,000
\$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%.	1,720,000
\$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%.	485,000
\$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	47,580,000
Plus: Premiums on bond issuances (net)	<u>253,148</u>
Subtotal - Bonds Payable	<u><u>\$ 47,833,148</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, 2015 the interest rate was 3.41183%. The School District borrowed \$2,903,518 in principal during the fiscal year. The balances at June 30, 2015 are as follows:

Principal balance	\$ 11,744,295
Interest balance	<u>878,931</u>
Total	<u><u>\$ 12,623,226</u></u>

Belding Area Schools
Notes to Financial Statements
June 30, 2015

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

Pension Organization

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

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

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The 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, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

Belding Area Schools
Notes to Financial Statements
June 30, 2015

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

Membership

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

Inactive plan members or their beneficiaries currently received benefits:

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

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

Active plan members:

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

Total plan members **432,268**

Benefits Provided

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

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

Member Contributions

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

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.

Employer Contributions

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

Summary of Significant Accounting Policies

Basis of Accounting and Presentation

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

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

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

Reserves

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

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

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

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

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

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

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

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

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

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

Reporting Entity

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

Benefit Protection

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

Fair Value of Investments

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

Investment Income

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

Costs of Administering the System

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

Property and Equipment

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

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State.

Cash

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

Contributions and Funding Status

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

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

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

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

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

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

Net Pension Liability

Measurement of the MPSERS Net Pension Liability

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

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

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability 66.20%
 Net Pension Liability as a Percentage of Covered – Employee Payroll 250.11%

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

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

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

Proportionate Share of Reporting Unit's Net Pension Liability

At September 30, 2014, the Reporting Unit reported a liability of \$22,511,311 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was 0.10220% percent.

Long-Term Expected Return on Plan Assets

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	4.8 %
% Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	<u>2.0</u>	(0.2)
Total	<u>100.0</u> %	

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

Rate of Return

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
<u>7.0% / 6.0%</u>	<u>8.0% / 7.0%</u>	<u>9.0% / 8.0%*</u>
\$29,679,203	\$22,511,311	\$16,472,256

Timing of the Valuation

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

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

Actuarial Valuations and Assumptions

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

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost of Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active Members, 80% of the table rates were used for Males and 70% of the table rates were used for Females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

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

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$1,823,529. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
-Differences between expected and actual experience	\$0	\$0
-Changes of assumptions	\$830,619	\$0
-Net difference between projected and actual earnings on pension plan investments	\$0	\$2,488,635
-Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	\$192	\$0
-Reporting Unit contributions subsequent to the Measurement date	\$1,704,364	\$0

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$1,704,364), which will impact the net pension liability in the next fiscal year, rather than pension expense.

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)

<u>Plan Year Ended September 30</u>	<u>Amount</u>
2015	\$ 406,122
2016	406,122
2017	406,122
2018	439,458

Post-Employment Benefits

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

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

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

Belding Area Schools

Notes to Financial Statements

June 30, 2015

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

Post-Employment Benefits (continued)

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

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

The School District's actual contributions match the required contributions for the year ended June 30, 2015. Contributions for June 30, 2015 were approximately \$273,828.

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 \$1,400,000 as a state aid note maturing August, 2016. 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. The project is complete.

Revenue:	\$39,890,292
Expenditures:	\$39,890,292

Note 14 – Change of Accounting Principle

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability is recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. Statements 68 and 71 are effective for the year ending June 30, 2015.

Belding Area Schools

Notes to Financial Statements

June 30, 2015

Note 14 – Change of Accounting Principle (continued)

The implementation of this change in accounting principle as mandated by GASB 68 requires the restatement of the beginning of the year net position. The net position as restated is as follows.

	Governmental Activities
Net position as previously stated July 01, 2014	\$ (2,343,609)
Adoption of GASB statement 68	(21,919,434)
Net position as restated July 01, 2014	<u>\$ (24,263,043)</u>

Note 15 – Upcoming Accounting Pronouncement

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued by the GASB in June 2015 and will be effective for the District's fiscal year beginning July 2017. The Statement requires governments that participate in defined benefit Other Post Employment Benefit (OPEB) plans to report in their statement of net position their proportionate share of the net OPEB liability. The net OPEB 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 75 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 OPEB liabilities and expense.

Required Supplemental Information

Belding Area Schools
Required Supplemental Information
Budgetary Comparison Schedule- General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	1,706,573	\$ 1,740,068	\$ 1,735,105	\$ (4,963)
State sources	13,919,503	14,806,767	14,781,103	(25,664)
Federal sources	1,058,802	991,996	939,652	(52,344)
Other	466,501	557,405	547,549	(9,856)
Total revenues	17,151,379	18,096,236	18,003,409	(92,827)
Expenditures				
Instruction				
Basic programs	8,138,542	8,308,549	8,228,237	80,312
Added needs	2,908,435	2,948,446	2,905,946	42,500
Adult and continuing education	51,358	55,023	51,182	3,841
Support services				
Pupil	817,740	764,422	760,876	3,546
Instructional staff	475,191	558,775	488,596	70,179
General administration	365,171	393,006	377,678	15,328
School administration	1,253,392	1,241,751	1,218,880	22,871
Business and central services	3,453,645	3,564,299	3,416,895	147,404
Athletics	320,000	385,255	379,408	5,847
Community services	42,631	45,391	36,924	8,467
Other transactions	30,000	152,369	153,397	(1,028)
Total expenditures	17,856,105	18,417,286	18,018,019	399,267
Excess (deficiency) of revenues over expenditures	(704,726)	(321,050)	(14,610)	306,440
Other financing sources (uses)				
Operating transfers in	30,000	30,000	37,800	7,800
Total other financing sources (uses)	30,000	30,000	37,800	7,800
Excess (deficiency) of revenues over expenditures and other sources (uses)	\$ (674,726)	\$ (291,050)	23,190	\$ 314,240
Fund balances at beginning of year			2,530,313	
Fund balances at end of year			\$ 2,553,503	

See accompanying note to financial statements

Belding Area Schools

Required Supplemental Information

Schedule of Proportionate Share of the Net Pension Liability

Michigan Public School Employee Retirement Plan

As Determined on September 30 of Each Fiscal Year

	<u>2014</u>
Belding Area Schools' Proportion of net pension liability (%)	0.10220%
Belding Area Schools' proportionate share of net pension liability	\$ 22,511,311
Belding Area Schools' covered-employee payroll	\$ 8,724,591
Belding Area Schools' proportionate share of net pension liability as a percentage of its covered-employee payroll	258.02%
Plan fiduciary net position as a percentage of total pension liability	66.20%

Belding Area Schools
 Required Supplemental Information
 Schedule of Pension Contributions
 Michigan Public School Employee Retirement Plan
 As Determined on June 30 of Each Fiscal Year

	2015
Statutorily required contributions	\$ 1,923,651
Contributions in relation to statutorily required contributions	\$ 1,923,651
Contribution deficiency (excess)	\$ 0
Belding Area Schools' covered-employee payroll	\$ 8,712,407
Contributions as a percentage of covered-employee payroll	22.08%

Other Supplemental Information

Belding Area Schools
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue	Other Nonmajor Funds				Governmental Funds
	Food Service	2006 Refunding Debt	2008 Refunding Debt	2009-A Refunding Debt	2010-B School & Site	Total
Assets						
Cash and investments	\$ 140,778	\$ 8,119	0	\$ 50,418	\$ 14,101	\$ 213,416
Accounts Receivable	50,000	0	0	0	0	50,000
Accrued interest receivable	0	0	0	0	0	0
Due from other funds	0	0	0	0	0	0
Due from other governments	4,748	197	0	1,230	255	6,430
Inventory of supplies - at cost	16,397	0	0	0	0	16,397
Total Assets	\$ 211,923	\$ 8,316	\$ 0	\$ 51,648	\$ 14,356	\$ 286,243
Liabilities						
Accounts payable	\$ 22,477	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,477
Due to other funds	38,903	0	0	0	3,879	42,782
Salaries payable	337	0	0	0	0	337
Total Liabilities	61,717	0	0	0	3,879	65,596
Fund Balance						
Non-spendable-Inventory	16,397	0	0	0	0	16,397
Restricted	133,809	8,316	0	51,648	10,477	204,250
Total Fund Balance	150,206	8,316	0	51,648	10,477	220,647
Total Liabilities and Fund Balance	\$ 211,923	\$ 8,316	\$ 0	\$ 51,648	\$ 14,356	\$ 286,243

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, 2015

	Special	Other Nonmajor Funds				Total Nonmajor Governmental Funds
	Revenue	2006 Refunding Debt	2008 Refunding Debt	2009-A Refunding Debt	2010-B School and Site	
	Food Service					
Revenues						
Local sources						
Property taxes	\$ 0	\$ 127,318	\$ 0	796,112	\$ 165,513	\$ 1,088,943
Lunch sales	176,090	0	0	0	0	176,090
Investment earnings	0	0	0	0	479,501	479,501
Total Local Sources	176,090	127,318	0	796,112	645,014	1,744,534
Federal and state sources						
State aid-matching funds	28,634	0	0	0	0	28,634
Federal aid	683,581	0	0	0	0	683,581
Federal commodities	41,930	0	0	0	0	41,930
Total Federal and State Sources	754,145	0	0	0	0	754,145
Total Revenues	930,235	127,318	0	796,112	645,014	2,498,679
Expenditures						
Food & supplies	408,830	0	0	0	0	408,830
Salaries & wages	145,339	0	0	0	0	145,339
Fringe benefits	52,714	0	0	0	0	52,714
Repairs & capital outlay	3,626	0	0	0	0	3,626
Other	250,035	0	0	0	0	250,035
Debt Service						
Redemption of Serial Bonds	0	180,000	650,000	1,360,000	0	2,190,000
Interest	0	76,900	304,750	72,487	1,477,888	1,932,025
Other	0	375	500	150	650	1,675
Total Expenditures	860,544	257,275	955,250	1,432,637	1,478,538	4,984,244
Excess (deficiency) of revenues over expenditures	69,691	(129,957)	(955,250)	(636,525)	(833,524)	(2,485,565)
Other financing sources (uses)						
Proceeds from SLRF	0	127,623	0	1,571,864	843,767	2,543,254
Operating transfers in (out)	(37,800)	375	955,250	(955,625)	0	(37,800)
Total Other Financing Sources	(37,800)	127,998	955,250	616,239	843,767	2,505,454
Excess (deficiency) of revenues over expenditures & other sources (uses)	31,891	(1,959)	0	(20,286)	10,243	19,889
Fund balances at beginning of year	118,315	10,275	0	71,934	234	200,758
Fund balances at end of year	\$ 150,206	\$ 8,316	\$ 0	\$ 51,648	\$ 10,477	\$ 220,647

Belding Area Schools
 Other Supplemental Information
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 Year Ended June 30, 2015

	2015		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Local sources	\$ 1,740,068	\$ 1,735,105	\$ (4,963)
State sources	14,806,767	14,781,103	(25,664)
Federal sources	991,996	939,652	(52,344)
Other	557,405	547,549	(9,856)
Total revenues	18,096,236	18,003,409	(92,827)
Expenditures			
Instruction			
Basic programs	8,308,549	8,228,237	80,312
Added needs	2,948,446	2,905,946	42,500
Adult and continuing education	55,023	51,182	3,841
Support services			
Pupil	764,422	760,876	3,546
Instructional staff	558,775	488,596	70,179
General administration	393,006	377,678	15,328
School administration	1,241,751	1,218,880	22,871
Business and central services	3,564,299	3,416,895	147,404
Athletics	385,255	379,408	5,847
Community services	45,391	36,924	8,467
Other transactions	152,369	153,397	(1,028)
Total expenditures	18,417,286	18,018,019	399,267
Excess (deficiency) of revenues over expenditures	(321,050)	(14,610)	306,440
Other financing sources (uses)			
Operating transfers in	30,000	37,800	7,800
Total other financing sources (uses)	30,000	37,800	7,800
Excess (deficiency) of revenues over expenditures and other sources (uses)	\$ (291,050)	23,190	\$ 314,240
Fund balances at beginning of year		2,530,313	
Fund balances at end of year		\$ 2,553,503	

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, 2015

	<u>Budget</u>	<u>Food Service Actual</u>	<u>Difference</u>
Revenues			
Local sources			
Lunch sales	\$ 145,001	\$ 176,090	\$ 31,089
Total Local Sources	145,001	176,090	31,089
Federal and state sources			
State aid-matching funds	30,790	28,634	(2,156)
Federal aid	657,001	683,581	26,580
Federal commodities	60,000	41,930	(18,070)
Total Federal and State Sources	<u>747,791</u>	<u>754,145</u>	<u>6,354</u>
Total Revenues	892,792	930,235	37,443
Expenditures			
Food & supplies	405,222	408,830	(3,608)
Salaries & wages	144,057	145,339	(1,282)
Fringe benefits	52,251	52,714	(463)
Repairs & capital outlay	3,594	3,626	(32)
Other	247,191	250,035	(2,844)
Total Expenditures	<u>852,315</u>	<u>860,544</u>	<u>(8,229)</u>
Excess (deficiency) of revenues over expenditures	40,477	69,691	29,214
Other financing sources (uses)			
Operating transfers in(out)	<u>(30,000)</u>	<u>(37,800)</u>	<u>7,800</u>
Excess (deficiency) of revenues over expenditures & other sources (uses)	<u>\$ 10,477</u>	31,891	<u>\$ 21,414</u>
Fund balances at beginning of year		<u>118,315</u>	
Fund balances at end of year		<u>\$ 150,206</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, 2015

Student Activity Funds

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Assets				
Cash And Cash Equivalents	\$ 200,153	\$ 397,072	\$ 393,869	\$ 203,356
Liabilities				
Due To Student Groups	\$ 200,153	\$ 397,072	\$ 393,869	\$ 203,356

See accompanying notes to financial statements

Belding Area Schools
Other Supplemental Information
Schedule of Bonded Debt
2006 Refunding Bonds
June 30, 2015

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
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>\$ 1,720,000</u>	<u>\$ 205,725</u>	<u>\$ 205,725</u>	<u>\$ 2,131,450</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, 2015

<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>	
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>\$ 6,575,000</u>	<u>\$ 786,750</u>	<u>\$ 786,750</u>	<u>\$ 8,148,500</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, 2015

<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>	
2016	4.29%	<u>\$ 485,000</u>	<u>\$ 10,404</u>	<u>\$ 10,404</u>	<u>\$ 505,808</u>
	Total	<u><u>\$ 485,000</u></u>	<u><u>\$ 10,404</u></u>	<u><u>\$ 10,404</u></u>	<u><u>\$ 505,808</u></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, 2015

Year Ended June 30	Interest Rate	Principal May 1	Interest November 1	Interest May 1	Total Debt Requirement
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>\$ 5,477,500</u>	<u>\$ 5,477,500</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, 2015

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
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>\$ 10,410,983</u>	<u>\$ 10,410,983</u>	<u>\$ 44,621,966</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, 2015, 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 26, 2015.

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 26, 2015



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, 2015. 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, 2015.

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 26, 2015

Belding Area Schools
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

A. Summary of Audit Results

1. The auditor's report expresses an unmodified 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, 2015.
7. The programs tested as a major programs include: CFDA #84.010. Total expenditures were \$450,909.
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, 2015

Federal Grantor Pass-Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue at July 1, 2014	(Memo Only) Prior Year Expenditures	Current-Year Expenditures	Current-Year Federal Revenue Received	Accrued or (Deferred) Revenue at June 30, 2015	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		\$ 24,624	\$ 1,199	\$ 1,199	\$ 23,425	\$ 24,624	\$ 0	\$ 0
Project number 141900		2,262	0	0	2,262	2,262	0	0
Project number 151900		41	0	0	41	0	41	0
Project number 150900		441	0	0	441	0	441	0
Total Summer		27,368	1,199	1,199	26,169	26,886	482	0
Lunch-Cash	10.555							
Project number 151960		394,720	0	0	394,720	394,720	0	0
Project number 141960		463,879	29,274	374,274	60,331	89,605	0	0
Total Lunch-Cash		858,599	29,274	374,274	455,051	484,325	0	0
Lunch-commodities								
Entitlement		41,930	0	0	41,930	41,930	0	0
Bonus		0	0	0	0	0	0	0
Total Commodities		41,930	0	0	41,930	41,930	0	0
Total lunch		900,529	29,274	374,274	496,981	526,255	0	0
Breakfast	10.553							
Project number 151970		176,952	0	0	176,952	176,952	0	0
Project number 141970		181,152	15,470	157,165	23,987	39,457	0	0
Total Breakfast		358,104	15,470	157,165	200,939	216,409	0	0
Total Child Nutrition Cluster		1,286,001	45,943	532,638	724,089	769,550	482	0
Child Care Food Program	10.558							
Project number 141920		1,462	120	1,349	113	233	0	0
Project number 151920		1,309	0	0	1,309	1,309	0	0
Total Child Care Food		2,771	120	1,349	1,422	1,542	0	0
Total U.S. Department of Agriculture		1,288,772	46,063	533,987	725,511	771,092	482	0
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I, Part A Cluster								
Title I	84.010 *							
Project number 151530-1415		459,538	0	0	450,909	297,311	153,598	0
Project number 141530-1314		493,861	120,354	441,186	0	120,354	0	0
Total Title I, Part A Cluster		953,399	120,354	441,186	450,909	417,665	153,598	0

Belding Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue at July 1, 2014	(Memo Only) Prior Year Expenditures	Current-Year Expenditures	Current-Year Federal Revenue Received	Accrued or (Deferred) Revenue at June 30, 2015	Adjustments
Title 1 - Migrant	84.011							
Project number 151830-1415		145,207	0	0	36,367	0	36,367	0
Project number 141830-1314		132,814	13,384	13,384	117,740	131,124	0	0
Project number 151890-1415		178,619	0	0	174,729	102,460	72,269	0
Project number 141890-1314		<u>220,143</u>	<u>37,815</u>	<u>203,717</u>	<u>0</u>	<u>37,815</u>	<u>0</u>	<u>0</u>
Total Title 1 - Migrant		676,783	51,199	217,101	328,836	271,399	108,636	0
Title III LEP	84.365							
Project number 140580-1314		46,982	5,312	37,898	0	5,312	0	0
Project number 150580-1415		<u>63,555</u>	<u>0</u>	<u>0</u>	<u>53,321</u>	<u>46,442</u>	<u>6,879</u>	<u>0</u>
Total Title III LEP		110,537	5,312	37,898	53,321	51,754	6,879	0
Title IIA - Improving Teacher Quality	84.367							
Project number 150520-1415		121,945	0	0	63,495	56,750	6,745	0
Project number 140520-1314		<u>123,629</u>	<u>15,672</u>	<u>99,656</u>	<u>0</u>	<u>15,672</u>	<u>0</u>	<u>0</u>
Total Title IIA		245,574	15,672	99,656	63,495	72,422	6,745	0
Adult Education-State Administerer	84.002							
Project number 151130-151913		45,881	0	0	43,091	29,130	13,961	0
Project number 141130-141913		<u>36,000</u>	<u>355</u>	<u>36,000</u>	<u>0</u>	<u>355</u>	<u>0</u>	<u>0</u>
Total Adult Education		81,881	355	36,000	43,091	29,485	13,961	0
Total U.S. Department of Education		<u>2,068,174</u>	<u>192,892</u>	<u>831,844</u>	<u>939,652</u>	<u>842,725</u>	<u>289,819</u>	<u>0</u>
Total federal financial assistance		<u>\$ 3,356,946</u>	<u>\$ 238,955</u>	<u>\$ 1,365,828</u>	<u>\$ 1,665,163</u>	<u>\$ 1,613,817</u>	<u>\$ 290,301</u>	<u>\$ 0</u>

* = Major program

Belding Area Schools
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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, 2015. 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 (CFDA #84.010) was audited as the major program, representing 27% 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	\$ 939,652
Other nonmajor governmental fund	<u>725,511</u>
Total per financial statements	<u><u>\$ 1,665,163</u></u>

Belding Area Schools
Schedule of Prior Audit Findings
June 30, 2015

Prior Audit Findings

None

To the Board of Education
Belding Area Schools
Belding, 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, 2015, and have issued our report thereon dated October 26, 2015. 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 May 26, 2015, 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.

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. During 2015, the District implemented Governmental Accounting Standard (GASB) No 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The application of existing policies was not changed during 2015. 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 26, 2015.

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 26, 2015