Birch Run Area Schools

Financial Statements

June 30, 2015

Table of Contents

Birch Run Area Schools
Members of the Board of Education and Administration
June 30, 2015

Members of the Board of Education

Donald Morse	President
Nan Haley	Vice President
Ron Johnson	Secretary
Jeanette Morrish	Treasurer
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Cindy Parker	Trustee
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Independent Auditors' Report

Management and the Board of Education
Birch Run Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Birch Run Area Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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 Birch Run Area Schools, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of net pension liability, and schedule of the school district's contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Birch Run Area Schools' basic financial statements as of and for the year ended June 30, 2014, which are not presented with the accompanying basic financial statements. In our report dated October 21, 2015, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Birch Run Area Schools' basic financial statements as a whole. The 2014 information in the comparative supplementary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 information in the comparative supplementary schedule is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015 on our consideration of Birch Run 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 Birch Run Area Schools' internal control over financial reporting and compliance.

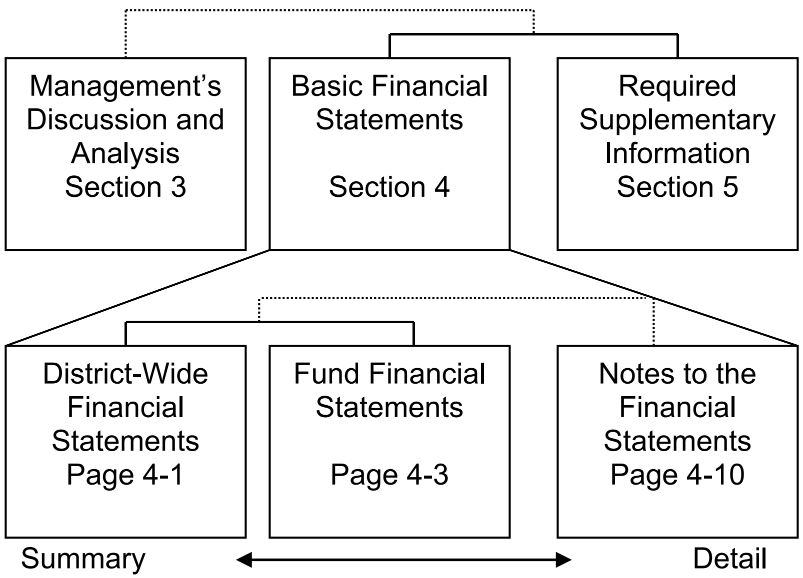
Yeo & Yeo, P.C.

Saginaw, MI
October 21, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB). The overall organization of this report is shown in Figure A-1.

Figure A-1
Birch Run Area Schools
Organization of Annual Financial Report



District –Wide Financial Statements

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

The Statement of Net Position (page 4-1) combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various district services.

When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the district, reporting the District's operation in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis.* Only those assets that are *"measurable"* and *"currently available"* are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Public School Accounting Manual*. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds. The funds used by Birch Run Area Schools include Debt Service Funds, Capital Projects Fund, Fiduciary Funds and a Special Revenue Fund for Food Service.

Birch Run Area Schools is the trustee, or fiduciary, for its student activity funds and for a number of scholarships established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net position. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole

Summary of Net Position

	Governmental Activities	
	June 30, 2015	**June 30, 2014**
Assets and Deferred Outflows		
Current assets	$ 4,480,817	$ 4,810,526
Capital assets	40,929,993	40,929,993
Less accumulated depreciation	(15,463,143)	(14,274,672)
Capital assets, net	25,466,850	26,655,321
Deferred outflows of resources	2,188,748	-
Total assets and deferred outflows	32,136,415	31,465,847
Liabilities and Deferred Inflows		
Current liabilities	2,877,807	3,004,233
Long-term liabilities	31,467,121	13,811,609
Deferred inflows of resources	2,055,053	-
Total liabilities and deferred inflows	36,399,981	16,815,842
Net position		
Total Capital Assets	12,225,993	12,882,114
Restricted	448,401	181,510
Unrestricted	(16,937,960)	1,586,381
Total Net Position	$ (4,263,566)	$ 14,650,005

The *Summary of Net Position* and the *Statement of Net Position from Operating Results* on the next page show the changes in the District's net position. It is not reasonable to compare the summary of net position for the two fiscal years due to the adoption of GASB 68 and 71 which required the inclusion of a liability of $18,589,281, representing the district's share of the MPSERS reporting unit. This significant financial transaction is further noted in the notes to the financial statements.

Unrestricted net position is similar but not identical to fund balance. Other assets are restricted for capital projects and food service operations. A reconciliation of the difference between changes in net position and changes in fund balance is on page 4-9.

The net position for the District decreased by $319,296 during the 2014/15 year. The *Statement of Changes in Net Position from Operating Results* (below) shows the details of this change.

Statement of Changes in Net Position from Operating Results

	Governmental Activities	
	June 30, 2015	**June 30, 2014**
Revenues		
Program revenues		
Charges for services	$ 412,800	$ 407,911
Operating grants and contributions	3,066,573	2,525,424
General revenues		
Property taxes	2,727,903	2,956,630
State foundation allowance	11,391,858	11,131,692
Other	66,400	136,446
Total revenues	17,665,534	17,158,103
Expenses		
Instruction	10,429,519	9,864,770
Support services	6,329,332	5,844,229
Food services	740,129	704,608
Other transactions	485,850	518,350
Total expenses	17,984,830	16,931,957
Change in net position	$ (319,296)	$ 226,146

The School District experienced a decrease in net position of $319,296. The primary reason for the decrease in net position was expenditure of capital projects fund balance to complete the bond project as well as depreciation expense.

The School District's Funds

As the School District completed this year, the governmental funds reported a combined fund balance of $2,653,444, which is a decrease of $2,809,444 from last year. The primary reasons for the decrease are:

- In the General Fund, our principal operating fund, the fund balance increased by $11,299**.** The increase was the result of budget savings.

- The fund balance of our Food Service Fund increased by $26,285. This was result of increased free and reduced lunch and budget savings.

- Our Debt Service Fund showed an increase of $237,692. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond-issue related debt service. The fund balance of the Debt Service is reserved since it can only be used for future debt service obligations. The fund balance increase is to create a fund balance for 2015-16 to pay the November debt interest payment after the exhaustion of the fund balance at the end of 2013-14 year when the 1999 debt was entirely retired.

- The Capital Project Fund had a decrease in fund balance of $431,276. This was a result of expense of the 2012 School Improvement Bond on capital improvements.

Approximately 75% of the District's revenues are received from State sources. The Net State Foundation Grant is based on three variables:

1. The State of Michigan State Aid Act per student foundation allowance.
2. Student enrollment calculated by blending 90 percent of the current year's fall count and 10 percent of the current year's winter count.
3. The amount raised by the District's non-homestead property tax levy of 18 mills.

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Birch Run Area Schools' foundation allowance was $7,126 per student.

Student Enrollment

The District's blended student count for 2014/15 was 1,813 students. This is 3 less students than the blended count of the prior year. The following summarizes the blended student count in the past five years:

Enrollment History

	Student FTE	FTE Change from Prior Year
2014/15	1,813	(3)
2013/14	1,816	14
2012/13	1,802	(78)
2011/12	1,880	14
2010/11	1,867	19

Preliminary student enrollment projections for 2014/15 indicate that enrollments are likely to be up from the 2013/14.

Property Taxes Levied for General Operations

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at lesser of the rate of the prior year's Consumer Price Index increase or 5 percent. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, theoretically 50 percent of the market value. The following summarizes the local tax revenues as a percent of all general fund revenues for the past five years:

Local Property Tax History

	Local Property Tax Revenue	% of General Fund Revenue
2014/15	$ 1,580,742	8.9%
2013/14	1,628,497	10.8%
2012/13	1,631,726	11.3%
2011/12	1,624,195	11.0%
2010/11	1,633,757	10.7%

Local revenues in the table include the receipt of delinquent taxes from prior years. For the fiscal year ended June 30, 2015, the District had $17 of current year property taxes that had not been collected.

Capital Assets

At June 30, 2015, the District had the following invested in capital assets including land, buildings, furniture, and equipment.

Assets	2015	2014
Land	$ 40,000	$ 40,000
Site Improvements	5,023,655	5,023,655
Buildings and improvements	33,250,582	33,250,582
Furniture and equipment	2,615,756	2,615,756
Subtotal	40,929,993	40,929,993
Less accumulated depreciation	(15,463,143)	(14,274,672)
	$ 25,466,850	$ 26,655,321

Long-Term Debt

The long-term obligations for the District decreased from $14,713,299 to $13,819,530. Total decreases of $893,769 represent bond payments, capital lease payments and payment of compensated absences.

Original versus Revised Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The budget for 2014/15 was approved on June 23, 2014 and amended on June 22, 2015.

General Fund Revenues

Total Revenues Revised Budget	$ 15,670,050
Total Revenues Original Budget	15,505,975
	$ 164,075

Some of the significant revenue budget adjustments for the year include:

- More Federal grant funding
- Fluctuation in student count due to Section 23a and Section 25e
- Changes in the 147D UAAL Funding

The District's actual general fund revenues were more than the revised budget by $131,449 a variance of 0.84%.

General Fund Expenditures

Total Expenditures Revised Budget	$ 15,548,690
Total Expenditures Original Budget	15,335,975
	$ 212,715

Some of the significant expenditure budget adjustments for the year include:

- Additional Federal grant funding
- Staff on long-term leaves
- Changes in 147D UAAL accounting

The District's actual general fund expenditures were more than the revised budget by $68,794, a variance of 0.44%.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late September, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated.

Actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. During 2014/15 State funding increased by $100/pupil. Further, changes in pupil accounting which allow for interim claims of students have made student count variable between Fall and Spring counts. That variation makes budgeting revenue accurately impossible until after the Spring count in February.

It is anticipated that in the 2015/16 school year that the foundation grant will increase by $200/pupil. While that increase is helpful, it still leaves funding below that of the 2006/07 year by the rate of inflation. While the CPI shows inflation of 15.4% over the same time period. Furthermore, there are currently some state "one-time" grants that could drop funding significantly, without actually changing state aid.

It is also expected that the state mandated retirement rate (MPSERS) will likely stay 25.78%. The MPSERS rate in the 2006/07 year was only 17.74% to compare with the foundation grant. Thus, while inflation is 15.1% over this time period, the MPSERS rate has increased by 43.0%. Despite the changes in the retirement system in FY 2012, the rates have not decreased, but has instead created a complex system with dozens of different options and rates for employees/the district. Further, while the state is helping fund the unfunded liability (above the 25.78% rate), it has created a convoluted accounting system for that funding.

With the decreases in state aid and the increases in MPSERS, Salaries, Health Insurance benefits, and general inflation, it is difficult to maintain a balanced budget while still providing an adequate educational program. Birch Run has controlled costs by implementing insurance hard caps in all collective bargaining agreements and tying salary schedule increases to the increase/decrease in foundation grant, while also contracting services for custodial and transportation. However, it is exceedingly difficult to manage a 43% increase in retirement and 15.4% increase in inflation on a 3.4% decrease in state revenue.

Requests for Information

This financial report is designed to give our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to: Mr. Scott N. Sawyer, Business Manager, Birch Run Area Schools, 12450 Church Street, Suite 2, Birch Run, Michigan, 48415.

BASIC FINANCIAL STATEMENTS

Birch Run Area Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash	$ 393,175
Taxes receivable	2,654
Accounts receivable	30,162
Due from other governmental units	3,246,122
Inventory	2,984
Investments	801,720
Prepaid items	4,000
Capital assets not being depreciated	40,000
Capital assets - net of accumulated depreciation	25,426,850
Total assets	29,947,667
Deferred outflows of resources	
Deferred amount of pension expense realted to net pension liability	2,188,748
Liabilities	
Accounts payable	162,392
State aid anticipation note payable	175,126
Due to other governmental units	111,264
Payroll deductions and withholdings	273,616
Accrued expenditures	387,946
Accrued salaries payable	819,198
Unearned revenue	6,575
Noncurrent liabilities	
Net pension liability	18,589,281
Debt due within one year	941,690
Debt due in more than one year	12,877,840
Total liabilities	34,344,928

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Deferred Inflows of Resources	
Deferred amount of net pension liability	$ 2,055,053
Net position	
Net investment in capital assets	12,225,993
Restricted for:	
Food service	207,795
Debt service	240,606
Unrestricted	(16,937,960)
Total net position	$ (4,263,566)

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Statement of Activities
For the Year Ended June 30, 2015

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Governmental activities					
Instruction	$ 10,429,519	$ 6,624	$ 2,039,069	$ -	$ (8,383,826)
Supporting services	6,329,332	107,158	575,117	-	(5,647,057)
Food services	740,129	241,825	452,387	-	(45,917)
Community services	88,415	57,193	-	-	(31,222)
Interest on long-term debt	397,435	-	-	-	(397,435)
Total governmental activities	$ 17,984,830	$ 412,800	$ 3,066,573	$ -	(14,505,457)
General revenues					
Property taxes, levied for general purposes					1,583,914
Property taxes, levied for debt service					1,143,989
State aid - unrestricted					11,391,858
Interest and investment earnings					558
Other					65,842
Total general revenues					14,186,161
Change in net position					(319,296)
Restated Net position - beginning					(3,944,270)
Net position - ending					$ (4,263,566)

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Governmental Funds
Balance Sheet
June 30, 2015

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	$ 45,181	$ 150	$ 347,844	$ 393,175
Taxes receivable	17	-	2,637	2,654
Accounts receivable	24,451	5,711	-	30,162
Due from other funds	43,188	201,721	18,220	263,129
Due from other governmental units	3,246,122	-	-	3,246,122
Inventory	318	2,666	-	2,984
Investments	801,720	-	-	801,720
Prepaid items	4,000	-	-	4,000
Total assets	$ 4,164,997	$ 210,248	$ 368,701	$ 4,743,946
Liabilities				
Accounts payable	$ 154,818	$ 965	$ 6,609	$ 162,392
State aid anticipation note payable	175,126	-	-	175,126
Due to other funds	219,941	-	43,188	263,129
Due to other governmental units	111,264	-	-	111,264
Payroll deductions and withholdings	273,544	72	-	273,616
Accrued expenditures	276,548	-	-	276,548
Accrued salaries payable	819,198	-	-	819,198
Unearned revenue	5,159	1,416	-	6,575
Total liabilities	2,035,598	2,453	49,797	2,087,848

Birch Run Area Schools
Governmental Funds
Balance Sheet
June 30, 2015

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Inflows of Resources				
Property taxes	$ 17	$ -	$ 2,637	$ 2,654
Fund Balance				
Non-spendable for:				
Inventory	318	2,666	-	2,984
Prepaid items	4,000	-	-	4,000
Restricted for:				
Food service	-	205,129	-	205,129
Debt service	-	-	240,606	240,606
Capital projects	-	-	75,661	75,661
Unassigned	2,125,064	-	-	2,125,064
Total fund balance	2,129,382	207,795	316,267	2,653,444
Total liabilities, deferred inflows or resources and fund balance	$ 4,164,997	$ 210,248	$ 368,701	$ 4,743,946

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

Total fund balances for governmental funds	$ 2,653,444
Total net position for governmental activities in the statement of net position is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Property taxes	2,654
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	40,000
Capital assets - net of accumulated depreciation	25,426,850
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(2,055,053)
Deferred outflows of resources from pension expenses subsequent to measurement date of net pension liability	2,188,748
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(111,398)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(18,589,281)
Compensated absences	(472,678)
Bonds payable	(13,346,852)
Net position of governmental activities	$ (4,263,566)

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	$ 1,829,541	$ 241,825	$ 1,150,881	$ 3,222,247
State sources	13,241,728	41,176	-	13,282,904
Federal sources	671,222	445,127	-	1,116,349
Interdistrict sources	59,008	-	-	59,008
Total revenues	15,801,499	728,128	1,150,881	17,680,508
Expenditures				
Current				
Education				
Instruction	9,502,995	-	-	9,502,995
Supporting services	5,767,054	-	-	5,767,054
Food services	-	674,378	-	674,378
Community services	80,560	-	-	80,560
Capital outlay	35,015	-	438,088	473,103
Debt service				
Principal	191,690	-	710,000	901,690
Interest and other expenditures	40,170	-	396,558	436,728
Total expenditures	15,617,484	674,378	1,544,646	17,836,508
Excess (deficiency) of revenues over expenditures	184,015	53,750	(393,765)	(156,000)

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other financing sources (uses)				
Transfers in	$ 27,465	$ -	$ 200,181	$ 227,646
Transfers out	(200,181)	(27,465)	-	(227,646)
Total other financing sources (uses)	(172,716)	(27,465)	200,181	-
Net change in fund balance	11,299	26,285	(193,584)	(156,000)
Fund balance - beginning	2,118,083	181,510	509,851	2,809,444
Fund balance - ending	$ 2,129,382	$ 207,795	$ 316,267	$ 2,653,444

Birch Run Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Net change in fund balances - Total governmental funds	$ (156,000)
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(14,974)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(1,188,471)
Expenses are recorded when incurred in the statement of activities.	
Interest	7,691
Compensated absences	(39,523)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	1,187,170
Net change in the deferred inflow of resources related to the net pension liability	(2,055,053)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	1,006,572
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Repayments of long-term debt	901,690
Repayments on capital lease	1,097
Amortization of bond premium	30,505
Change in net position of governmental activities	$ (319,296)

See Accompanying Notes to the Financial Statements

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

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	$ 28,888	$ 197,035
Liabilities		
Due to agency fund activities	-	$ 197,035
Net position		
Reserved for scholarships	$ 28,888	

See Accompanying Notes to the Financial Statements

Birch Run Area Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

	Private Purpose Trust Funds
Additions	
Local sources	$ 6,543
Deductions	
Scholarships	8,400
Change in net position	(1,857)
Net position - beginning	30,745
Net position - ending	$ 28,888

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

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

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

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

Food Service Fund – The Food Service Fund is used to record all transactions associated with food service activities administered by the School District.

Additionally, the School District reports the following fund types:

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

Capital Projects Fund – The Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

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

Assets, Liabilities and Equity

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

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

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

General Fund	
Non-principal residence exemption	18.0000
Commercial personal property	6.0000
Debt Service Funds	4.2000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries. Approximately 98.6% of the School District’s tax roll lies within the County of Saginaw and the remaining 1.4% lies within the County of Genesee.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Saginaw and Genesee and remitted to the School District.

Inventories – 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.

Investments – Investments are stated at fair value based on a quoted market price.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they are capitalized as prepaid items.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of $5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	7-50 years
Site improvements	20 years
Equipment and furniture	5-20 years

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

Compensated Absences – Employees receive accumulated sick leave up to a maximum of 102 days upon retirement with a minimum of 6 to 10 years of service.

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

Deferred inflows of resources - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

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.

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

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

Adoption of New Accounting Standards
The Governmental Accounting Standards Board ("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.

Upcoming Accounting and Reporting Changes
The Governmental Accounting Standards Board ("The GASB") has also issued Statement 72, *Fair Value Measurements and Applications.* Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. The School District is evaluating the impact GASB 72 will have on the

School District's financial statements and disclosures. Statement 72 is effective for the year ending June 30, 2016.

In addition, the Governmental Accounting Standards Board has released the following three Statements.

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

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

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were necessary to adjust budgeted revenues and expenses in relation to the original appropriations.

Excess of Expenditures over Appropriations

The District had the following budget variances where expenses exceeded the budget:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	$ 1,673,650	$ 1,762,533	$ 88,883
Pupil	832,900	961,419	128,519
Instructional staff	346,675	357,234	10,559
School administration	1,071,755	1,090,212	18,457
Operations and maintenance	1,118,640	1,132,574	13,934
Pupil transportation services	909,900	924,455	14,555
Athletic activities	335,550	364,403	28,853

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of $16,937,960 as of June 30, 2015. There are no other governmental funds with a deficit.

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 393,175	$ 225,923	$ 619,098
Investments	801,720	-	801,720
	$ 1,194,895	$ 225,923	$ 1,420,818

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	$ 269,063
Investments in securities, mutual funds, and similar vehicles	1,151,105
Petty cash and cash on hand	650
Total	$ 1,420,818

As of year end, the District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund - CMS	$ 2,440	6 months Average	AAAm	Standard & Poor's
Michigan Liquid Asset Fund - MAX	1,148,665	6 months Average	AAAm	Standard & Poor's
	$ 1,151,105			

Interest rate risk – In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 12 months.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The District's investment policy allows a maximum of 100% of available funds to be invested in the Michigan Liquid Asset Fund (MILAF+) and any of its affiliated programs.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, $37,732 of the District's bank balance of $287,732 was exposed to custodial credit risk.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the district's investments were exposed to custodial credit risk.

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 40,000	$ -	$ -	$ 40,000
Capital assets being depreciated				
Buildings and additions	33,250,582	-	-	33,250,582
Site improvements	5,023,655	-	-	5,023,655
Equipment and furniture	2,615,756	-	-	2,615,756
Total capital assets being depreciated	40,889,993	-	-	40,889,993
Less accumulated depreciation for				
Buildings and additions	10,522,411	883,198	-	11,405,609
Site improvements	2,152,959	151,088	-	2,304,047
Equipment and furniture	1,599,302	154,185	-	1,753,487
Total accumulated depreciation	14,274,672	1,188,471	-	15,463,143
Net capital assets being depreciated	26,615,321	(1,188,471)	-	25,426,850
Net capital assets	$ 26,655,321	$ (1,188,471)	$ -	$ 25,466,850

Depreciation for the fiscal year ended June 30, 2015 amounted to $1,188,471. Depreciation expense was charged to the various governmental activities as follows:

Governmental activities	
Instruction	$ 704,776
Support services	427,706
Food services	50,014
Community services	5,975
Total governmental activities	$ 1,188,471

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Capital Project	General Fund	$ 43,188
General Fund	Capital Project	18,220
General Fund	Food Service	201,721
		$ 263,129

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

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

Interfund transfers consists of the following:

	Transfers Out		
	General Fund	Food Service Fund	Total
Transfers in			
General Fund	$ -	$ 27,465	$ 27,465
Capital projects	200,181	-	200,181
	$ 200,181	$ 27,465	$ 227,646

Transfers of $27,465 were made from the Food Service Fund to the General Fund to cover indirect costs.

Transfers of $200,181 were made from the General Fund to the Capital Projects Fund to cover the interest on the 2012 School Improvement Bond for which the Board of Education designated General Fund Balance to reduce the millage rate to the taxpayers.

Note 6 - Unearned Revenue

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

Grant and categorical and payments received prior to meeting all eligibility requirements	$ 5,159
Food service lunch deposits	1,416
Total	$ 6,575

Note 7 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 140,038	$ 1,250,000	$ 1,214,912	$ 175,126

The state aid anticipation note included an irrevocable set aside of $1,074,874 at year end that is considered defeased debt and not included in the ending balance.

Note 8 - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	$ 13,851,977	$ -	901,690	$ 12,950,287	$ 941,690
Capital lease	1,097	-	1,097	-	-
Compensated absences	433,155	39,523	-	472,678	-
Premium on bonds	427,070	-	30,505	396,565	-
Total	$ 14,713,299	$ 39,523	$ 933,292	$ 13,819,530	$ 941,690

For governmental activities, capital leases and compensated absences are primarily liquidated by the General Fund.

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

$11,360,000 serial bond due in annual installments of $750,000 to $975,000 through May 1, 2027, interest at 2.50% to 5.00%	$ 10,650,000
$2,875,357 serial bond due in annual installments of $191,690 and $191,961 through August 17, 2026, interest at 5.99%	2,300,287
Total general obligation bonded debt	$ 12,950,287

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

Year Ending June 30,	Principal	Interest	Total
2016	$ 941,690	$ 500,359	$ 1,442,049
2017	966,690	466,376	1,433,066
2018	966,690	431,644	1,398,334
2019	1,016,690	396,912	1,413,602
2020	1,041,690	344,179	1,385,869
2021-2025	5,683,455	1,085,539	6,768,994
2026-2027	2,333,382	130,215	2,463,597
Total	$ 12,950,287	$ 3,355,224	$ 16,305,511

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of $240,606 to pay this debt. Future debt and interest will be payable from future tax levies.

Compensated Absences

Accrued compensated absences at year end, consist of $51,200 of vacation hours earned and vested and $421,478 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 9 - Risk Management

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

The possibility of additional claims exists but the amount of liability to the School District would be immaterial by the time the aggregate stop-loss coverage is triggered. There also is a possibility of a refund due the School District. Therefore, neither contingent liabilities nor assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had unemployment compensation expense of $4,052 or the year. No provision has been made for possible future claims.

Note 10 - Pension Plans and Post Employment Benefits

Organization

The Michigan Public School Employees' Retirement System (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 Governor appointed board members consist of:

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

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

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

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

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

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to, but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
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 as a percent of wages: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% of all wages over $15,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Contribution Rates

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

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).

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

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

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

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

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

Proportionate Share of Reporting Unit's Net Pension Liability – At September 30, 2014, the School District reported a liability of $18,589,281 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2014, the School District's proportionate share percent was 0.08440 percent, which is unchanged since the prior measurement date.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	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	2.0	(0.2)
	100.0%	

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

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

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$ 24,508,348	$ 18,589,281	$ 13,602,379

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

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

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

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

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

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions:

- Wage inflation rate: 3.5%
- Investment Rate of returns:
    - MIP and Basic Plans (Non-Hybrid): 8.0%
    - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%

- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

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

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

For the year ended June 30, 2015, the School District recognized total pension expense of $1,505,784. At June 30, 2015, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 685,905	$ -
Net difference between projected and actual earnings on pension plan investments	-	(2,055,053)
Employer contributions subsequent to the measurement date	1,502,843	-
	$ 2,188,748	$ (2,055,053)

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

Deferred (Inflows) and Deferred Outflows of Resources by Year

Plan Year Ending September 30	Amount:
2015	$ 1,167,436
2016	(335,407)
2017	(335,407)
2018	(362,927)
Total	$ 133,695

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.

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

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

The School District's actual contributions match the required contributions for the years ended June 30, 2015, 2014, and 2013 and were approximately $255,000, $500,000, and $689,000, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2015, the School District had contributions in the amount of $626,334 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 7.63% for the year.

Note 11 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year **Error! Not a valid link.**5.

Note 12 - Prior Period Adjustment

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statements 68 and 71. These statements require the School District to record their proportionate share of the net pension liability and pension expense. Previously these amounts were not recorded on the School District's statements. The standards require this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2014, by $18,594,275, restating it from $14,650,005 to $(3,944,270).

REQUIRED SUPPLEMENTARY INFORMATION

Birch Run Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Local sources	$ 1,788,600	$ 1,769,500	$ 1,829,541	$ 60,041
State sources	12,932,875	13,187,900	13,241,728	53,828
Federal sources	745,600	673,750	671,222	(2,528)
Interdistrict sources	38,900	38,900	59,008	20,108
Total revenues	15,505,975	15,670,050	15,801,499	131,449
Expenditures				
Instruction				
Basic programs	7,767,530	7,870,300	7,740,462	(129,838)
Added needs	1,563,160	1,673,650	1,762,533	88,883
Supporting services				
Pupil	849,840	832,900	961,419	128,519
Instructional staff	399,765	346,675	357,234	10,559
General administration	343,510	344,240	335,178	(9,062)
School administration	1,040,565	1,071,755	1,090,212	18,457
Business	300,000	310,440	291,080	(19,360)
Operations and maintenance	1,140,295	1,118,640	1,132,574	13,934
Pupil transportation services	929,740	909,900	924,455	14,555
Central	311,380	324,140	310,499	(13,641)
Athletic activities	325,470	335,550	364,403	28,853
Community services	90,720	96,000	80,560	(15,440)
Capital outlay	38,100	78,600	35,015	(43,585)

Birch Run Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Budget
Debt service				
Principal	$ 191,700	$ 191,700	$ 191,690	$ (10)
Interest and fiscal charges	44,200	44,200	40,170	(4,030)
Total expenditures	15,335,975	15,548,690	15,617,484	68,794
Excess (deficiency) of revenues over expenditures	170,000	121,360	184,015	62,655
Other financing sources (uses)				
Transfers in	25,000	25,000	27,465	2,465
Transfers out	(195,000)	(206,250)	(200,181)	6,069
Total other financing sources (uses)	(170,000)	(181,250)	(172,716)	8,534
Net change in fund balance	-	(59,890)	11,299	71,189
Fund balance - beginning	2,118,083	2,118,083	2,118,083	-
Fund balance - ending	$ 2,118,083	$ 2,058,193	$ 2,129,382	$ 71,189

Birch Run Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - Food Service Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Local sources	$ 261,000	$ 250,200	$ 241,825	$ (8,375)
State sources	38,000	31,400	41,176	9,776
Federal sources	400,000	440,000	445,127	5,127
Total revenues	699,000	721,600	728,128	6,528
Expenditures				
Food services	679,650	696,000	674,378	(21,622)
Excess (deficiency) of revenues over expenditures	19,350	25,600	53,750	28,150
Other Financing Sources (Uses)				
Transfers out	(25,000)	(25,000)	(27,465)	(2,465)
Net change in fund balance	(5,650)	600	26,285	25,685
Fund balance - beginning	181,510	181,510	181,510	-
Fund balance - ending	$ 175,860	$ 182,110	$ 207,795	$ 25,685

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

	June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A. Reporting unit's proportion of net pension liability (%)	0.08440%									
B. Reporting unit's proportionate share of net pension liability	$ 18,589,281									
C. Reporting unit's covered-employee payroll	$ 7,201,792									
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	258.12%									
E. Plan fiduciary net position as a percentage of total pension liability	66.20%									

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

		For the Years Ended June 30,									
		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A.	Statutorily required contributions	$ 1,630,605									
B.	Contributions in relation to statutorily required contributions	1,630,605									
C.	Contribution deficiency (excess)	$ -									
D.	Reporting unit's covered-employee payroll	$ 7,323,415									
E.	Contributions as a percentage of covered-employee payroll	22.27%									

OTHER SUPPLEMENTARY INFORMATION

Birch Run Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

	Capital Projects Fund	Debt Fund	Total Nonmajor Governmental Funds
Assets			
Cash	$ 105,995	$ 241,849	$ 347,844
Taxes receivable	-	2,637	2,637
Due from other funds	18,220	-	18,220
Total assets	$ 124,215	$ 244,486	$ 368,701
Liabilities			
Accounts payable	$ 5,366	$ 1,243	$ 6,609
Due to other funds	43,188	-	43,188
Total liabilities	48,554	1,243	49,797
Deferred Inflows of Resources			
Property taxes	-	2,637	2,637
Fund balance			
Restricted for:			
Debt service	-	240,606	240,606
Capital projects	75,661	-	75,661
Total fund balance	75,661	240,606	316,267
Total liabilities, deferred inflows of resources and fund balance	$ 124,215	$ 244,486	$ 368,701

Birch Run Area Schools

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

	Capital Projects Fund	Debt Fund	Total Nonmajor Governmental Funds
Revenues			
Local sources	$ 6,812	$ 1,144,069	$ 1,150,881
Expenditures			
Capital outlay	438,088	-	438,088
Debt service			
Principal	-	710,000	710,000
Interest and other expenditures	-	396,558	396,558
Total expenditures	438,088	1,106,558	1,544,646
Excess (deficiency) of revenues over expenditures	(431,276)	37,511	(393,765)
Other financing sources			
Transfers in	-	200,181	200,181
Net change in fund balance	(431,276)	237,692	(193,584)
Fund balance - beginning	506,937	2,914	509,851
Fund balance - ending	$ 75,661	$ 240,606	$ 316,267

Birch Run Area Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2015

	2015	2014
Assets		
Cash	$ 45,181	$ 34,297
Taxes receivable	17	6,196
Accounts receivable	24,451	6,282
Due from other funds	43,188	4,496
Due from other governmental units	3,246,122	3,015,915
Inventory	318	-
Investments	801,720	1,117,142
Prepaid items	4,000	-
Total assets	$ 4,164,997	$ 4,184,328
Liabilities		
Accounts payable	$ 154,818	$ 204,438
State aid anticipation note payable	175,126	140,038
Due to other funds	219,941	156,905
Due to other governmental units	111,264	100,576
Payroll deductions and withholdings	273,544	276,503
Accrued expenditures	276,548	251,987
Accrued salaries payable	819,198	848,117
Unearned revenue	5,159	81,485
Total liabilities	2,035,598	2,060,049
Deferred Inflows of Resources		
Property taxes	17	6,196
Fund balance		
Non-spendable for:		
Inventory	318	-
Prepaid items	4,000	-
Assigned for:		
Debt buy-down	-	363,314
Unassigned	2,125,064	1,754,769
	2,129,382	2,118,083
Total liabilities and fund balance	$ 4,164,997	$ 4,184,328

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	$ 1,617,700	$ 1,583,000	$ 1,598,888	$ 15,888
Tuition	-	3,000	6,624	3,624
Earnings on investments	500	500	394	(106)
Student activities	135,700	135,700	157,138	21,438
Other local revenues	34,700	47,300	66,497	19,197
Total revenues from local sources	1,788,600	1,769,500	1,829,541	60,041
Revenues from state sources				
Grants - unrestricted	11,743,721	11,602,400	11,541,914	(60,486)
Grants - restricted	1,189,154	1,585,500	1,699,814	114,314
Total revenues from state sources	12,932,875	13,187,900	13,241,728	53,828
Revenues from federal sources				
Grants	745,600	673,750	671,222	(2,528)
Interdistrict sources				
ISD collected millage	8,900	8,900	10,193	1,293
Other	30,000	30,000	48,815	18,815
Total interdistrict sources	38,900	38,900	59,008	20,108
Other financing sources				
Transfers in	25,000	25,000	27,465	2,465
Total revenues and financing sources	$ 15,530,975	$ 15,695,050	$ 15,828,964	$ 133,914

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	$ 1,716,190	$ 1,566,000	$ 1,640,582	$ 74,582
Employee benefits	1,036,170	1,049,600	1,069,071	19,471
Purchased services	33,700	33,700	29,155	(4,545)
Supplies and materials	106,900	90,700	84,515	(6,185)
Total elementary	2,892,960	2,740,000	2,823,323	83,323
Basic program - middle school				
Salaries	1,282,970	1,362,200	1,191,491	(170,709)
Employee benefits	747,310	844,700	782,511	(62,189)
Purchased services	45,800	33,000	28,584	(4,416)
Supplies and materials	25,000	33,900	33,697	(203)
Total middle school	2,101,080	2,273,800	2,036,283	(237,517)
Basic program - high school				
Salaries	1,439,780	1,368,600	1,364,665	(3,935)
Employee benefits	868,430	876,000	885,614	9,614
Purchased services	260,800	337,900	335,021	(2,879)
Supplies and materials	90,000	90,500	95,061	4,561
Other	200	200	-	(200)
Total high school	2,659,210	2,673,200	2,680,361	7,161

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - pre-school				
Salaries	$ 68,180	$ 106,700	$ 115,181	$ 8,481
Employee benefits	44,100	62,400	72,730	10,330
Purchased services	500	2,200	1,423	(777)
Supplies and materials	1,500	12,000	11,161	(839)
Total pre-school	114,280	183,300	200,495	17,195
Added needs - special education				
Salaries	548,240	510,600	529,415	18,815
Employee benefits	304,480	322,400	335,665	13,265
Purchased services	11,650	14,650	17,547	2,897
Supplies and materials	2,700	2,700	2,633	(67)
Other	115,000	121,000	179,924	58,924
Total special education	982,070	971,350	1,065,184	93,834
Added needs - compensatory education				
Salaries	342,510	446,500	419,244	(27,256)
Employee benefits	199,080	235,500	257,088	21,588
Purchased services	39,000	19,800	16,078	(3,722)
Supplies and materials	500	500	4,939	4,439
Total compensatory education	581,090	702,300	697,349	(4,951)

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	$ 187,400	$ 184,700	$ 182,965	$ (1,735)
Employee benefits	110,980	114,000	114,425	425
Total guidance services	298,380	298,700	297,390	(1,310)
Pupil - health services				
Other	40,000	40,000	45,470	5,470
Pupil - psychological services				
Other	89,000	89,000	103,309	14,309
Pupil - speech services				
Salaries	65,630	64,300	58,547	(5,753)
Employee benefits	41,230	42,600	40,343	(2,257)
Purchased services	53,000	62,000	72,416	10,416
Supplies and materials	2,100	2,100	780	(1,320)
Total speech services	161,960	171,000	172,086	1,086
Pupil - social work services				
Salaries	69,930	69,300	69,305	5
Employee benefits	42,840	44,600	44,926	326
Total social work services	112,770	113,900	114,231	331

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - teacher consultant				
Other	$ 23,000	$ -	$ -	$ -
Pupil - other support services				
Salaries	76,890	70,100	145,722	75,622
Employee benefits	33,440	35,100	66,348	31,248
Purchased services	1,800	2,000	3,725	1,725
Supplies and materials	12,600	13,100	13,138	38
Total other pupil support services	124,730	120,300	228,933	108,633
Instructional staff - improvement of education				
Purchased services	76,300	16,200	15,722	(478)
Supplies and materials	-	4,800	-	(4,800)
Total improvement of education	76,300	21,000	15,722	(5,278)
Instructional staff - educational media services				
Salaries	94,790	93,700	98,337	4,637
Employee benefits	47,770	50,400	51,439	1,039
Purchased services	6,200	6,200	9,010	2,810
Supplies and materials	15,200	15,200	10,936	(4,264)
Total educational media services	163,960	165,500	169,722	4,222

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - supervision and direction of instructional staff				
Salaries	$ 26,100	$ 25,800	$ 25,592	$ (208)
Employee benefits	24,330	25,300	27,792	2,492
Purchased services	1,150	1,150	908	(242)
Supplies and materials	925	925	2,975	2,050
Other	98,000	98,000	109,471	11,471
Total supervision and direction of instructional staff	150,505	151,175	166,738	15,563
Instructional staff - academic student assessment				
Purchased services	-	-	3,000	3,000
Instructional staff - other services				
Other	9,000	9,000	2,052	(6,948)
General administration - board of education				
Salaries	7,000	7,000	5,610	(1,390)
Purchased services	36,700	33,200	32,831	(369)
Supplies and materials	3,000	3,000	2,098	(902)
Other	5,000	5,000	5,231	231
Total board of education	51,700	48,200	45,770	(2,430)

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - executive administration				
Salaries	$ 175,420	$ 174,400	$ 171,999	$ (2,401)
Employee benefits	105,250	110,500	108,711	(1,789)
Purchased services	7,740	7,740	5,126	(2,614)
Supplies and materials	1,900	1,900	2,286	386
Other	1,500	1,500	1,286	(214)
Total executive administration	291,810	296,040	289,408	(6,632)
School administration - office of the principal				
Salaries	628,270	628,400	622,253	(6,147)
Employee benefits	390,165	421,225	427,085	5,860
Purchased services	10,130	10,130	22,383	12,253
Supplies and materials	10,100	10,100	16,134	6,034
Other	1,900	1,900	2,357	457
Total office of the principal	1,040,565	1,071,755	1,090,212	18,457
Business - fiscal services				
Salaries	141,160	141,300	143,826	2,526
Employee benefits	91,600	100,500	97,301	(3,199)
Purchased services	9,600	11,000	6,597	(4,403)
Supplies and materials	5,600	5,600	5,336	(264)
Other	4,400	4,400	6,505	2,105
Total fiscal services	252,360	262,800	259,565	(3,235)

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Business - other				
Purchased services	$ 10,700	$ 10,700	$ 11,287	$ 587
Other	36,940	36,940	20,228	(16,712)
Total other business	47,640	47,640	31,515	(16,125)
Operations and maintenance - operating building services				
Salaries	109,780	91,400	96,197	4,797
Employee benefits	62,280	60,500	61,493	993
Purchased services	572,140	601,040	604,147	3,107
Supplies and materials	396,095	365,700	370,737	5,037
Total operating building services	1,140,295	1,118,640	1,132,574	13,934
Pupil transportation services				
Salaries	12,130	12,000	13,629	1,629
Employee benefits	4,510	17,200	17,196	(4)
Purchased services	795,100	801,700	817,420	15,720
Supplies and materials	110,000	72,000	69,336	(2,664)
Other	8,000	7,000	6,874	(126)
Total transportation services	929,740	909,900	924,455	14,555

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - communication services				
Purchased services	$ 5,300	$ 5,300	$ 4,745	$ (555)
Supplies and materials	1,000	1,000	429	(571)
Other	3,000	3,000	-	(3,000)
Total communication services	9,300	9,300	5,174	(4,126)
Central - staff/personnel services				
Purchased services	41,700	55,100	63,534	8,434
Supplies and materials	1,000	1,140	140	(1,000)
Total staff/personnel services	42,700	56,240	63,674	7,434
Central - support services technology				
Salaries	81,900	82,300	80,557	(1,743)
Employee benefits	30,980	34,800	36,042	1,242
Purchased services	62,800	62,800	59,742	(3,058)
Supplies and materials	5,500	5,500	1,071	(4,429)
Other	60,000	55,000	55,919	919
Total support services technology	241,180	240,400	233,331	(7,069)
Central - pupil accounting				
Other	1,200	1,200	1,074	(126)
Central - other				
Other	17,000	17,000	7,246	(9,754)

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Athletic activities				
Salaries	$ 100,280	$ 98,100	$ 95,532	$ (2,568)
Employee benefits	56,040	59,300	57,417	(1,883)
Purchased services	134,700	143,700	149,940	6,240
Supplies and materials	23,850	23,850	37,961	14,111
Other	10,600	10,600	23,553	12,953
Total other athletic activities	325,470	335,550	364,403	28,853
Community services - community recreation				
Salaries	55,450	61,000	48,192	(12,808)
Employee benefits	28,770	28,500	27,012	(1,488)
Purchased services	2,950	2,950	2,981	31
Supplies and materials	3,500	3,500	2,299	(1,201)
Other	50	50	76	26
Total community recreation	90,720	96,000	80,560	(15,440)
Capital outlay				
Basic program - middle school	1,900	-	-	-
Basic program - high school	1,600	6,000	6,172	172
Instructional staff - educational media services	3,300	3,300	-	(3,300)
General administration - executive administration	1,500	1,500	478	(1,022)
School administration - office of the principal	1,800	1,800	-	(1,800)
Operations and maintenance - operating building services	13,000	51,000	10,145	(40,855)
Central - support services technology	15,000	15,000	18,220	3,220
Total capital outlay	38,100	78,600	35,015	(43,585)

Birch Run Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Debt service				
Principal	$ 191,700	$ 191,700	$ 191,690	$ (10)
Interest and other expenditures	44,200	44,200	40,170	(4,030)
Total debt service	235,900	235,900	231,860	(4,040)
Other financing uses				
Transfers out	195,000	206,250	200,181	(6,069)
Total expenditures and financing uses	$ 15,530,975	$ 15,754,940	$ 15,817,665	$ 62,725

Birch Run Area Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2015

Year Ending June 30,	2011 School Building and Site Bonds	2012 School Building and Site Bonds	Total
2016	$ 191,690	$ 750,000	$ 941,690
2017	191,690	775,000	966,690
2018	191,690	775,000	966,690
2019	191,690	825,000	1,016,690
2020	191,690	850,000	1,041,690
2021	191,691	900,000	1,091,691
2022	191,691	925,000	1,116,691
2023	191,691	950,000	1,141,691
2024	191,691	975,000	1,166,691
2025	191,691	975,000	1,166,691
2026	191,691	975,000	1,166,691
2027	191,691	975,000	1,166,691
Total	$ 2,300,287	$ 10,650,000	$ 12,950,287
Principal payments due	August 17th	May 1st	
Interest payments due	August 17th and February 17th	May 1st and November 1st	
Interest rate	5.99%	3.00% - 3.50%	
Original issue	$ 2,875,357	$ 11,360,000	