

# **Battle Creek Public Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2016**

# Battle Creek Public Schools

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## Independent Auditor's Report

To the Board of Education  
Battle Creek Public Schools

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Battle Creek Public Schools (the "School District") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Battle Creek Public Schools' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Battle Creek Public Schools as of June 30, 2016 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education  
Battle Creek Public Schools

### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the School District's proportionate share of the net pension liability MPERS for the last 10 fiscal years, the schedule of the School District's contributions to MPERS over the last 10 fiscal years, and the budgetary comparison schedule on pages 43-44 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, which 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 supplemental 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 Battle Creek Public Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 on our consideration of Battle Creek Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Battle Creek Public Schools' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 27, 2016

# **Battle Creek Public Schools**

## **Management's Discussion and Analysis**

This section of Battle Creek Public Schools' (the "School District") financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the School District's basic financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Battle Creek Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds, the General Fund, Math and Science Center Fund, and Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net position and the statement of changes in fiduciary net position, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

#### *Basic Financial Statements*

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund and Math and Science Center Fund

Schedule of Proportionate Share of the Net Pension Liability

Schedule of Contributions to Michigan Public School Employees Retirement System

Notes to Pension Required Supplemental Information Schedules

Other Supplemental Information

# **Battle Creek Public Schools**

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## **Management's Discussion and Analysis (Continued)**

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets and deferred outflow of resources and liabilities and deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as a commercial entity. Many other nonfinancial factors, such as the quality of the educational programs, are used to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, capital projects, and food services. Property taxes, unrestricted state aid per pupil (foundation allowance revenue), and state and federal grants finance most of these activities.

# **Battle Creek Public Schools**

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## **Management's Discussion and Analysis (Continued)**

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (special revenue funds - Math and Science Center and Food Services - are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as millage funds used for capital projects). The governmental funds of the School District use the following accounting approach:

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

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

The School District is the trustee, or fiduciary, for student activity funds and scholarship trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# Battle Creek Public Schools

## Management's Discussion and Analysis (Continued)

### The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2016 and 2015:

	Governmental Activities	
	June 30	
	2016	2015
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 23.6	\$ 23.1
Capital assets	101.9	103.7
Total assets	125.5	126.8
<b>Deferred Outflows of Resources</b>		
Deferred charges on bond refunding	3.6	-
Deferred outflows related to pensions	8.5	4.5
Total deferred outflows of resources	12.1	4.5
Total assets and deferred outflows of resources	137.6	131.3
<b>Liabilities</b>		
Current liabilities	13.2	12.1
Long-term liabilities	58.3	57.9
Net pension liability	79.7	75.7
Total liabilities	151.2	145.7
<b>Deferred Inflows of Resources</b>	5.6	5.5
Total liabilities and deferred inflows of resources	156.8	151.2
<b>Net Position</b>		
Net investment in capital assets	46.7	45.9
Restricted	3.5	6.4
Unrestricted	(69.4)	(72.2)
Total net position	<u>\$ (19.2)</u>	<u>\$ (19.9)</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net deficit was \$19.2 million at June 30, 2016. Net investment in capital assets totaling \$46.7 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net position, which totals \$3.5 million, is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of deficit (\$69.4) million was unrestricted.

# Battle Creek Public Schools

## Management's Discussion and Analysis (Continued)

The (\$69.4) million deficit unrestricted net position of governmental activities at June 30, 2016 represents the accumulated results of all past years' operations. The deficit in the School District's net position includes a \$79.7 million liability for Michigan Public School Employees Retirement Plan from the adoption of GASB Statements No. 68 and 71. The unrestricted net position balance, excluding the effects of these pronouncements, enables the School District to meet working capital cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

TABLE 2

	<u>Governmental Activities</u>	
	<u>Year Ended June 30</u>	
	<u>2016</u>	<u>2015</u>
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 2.1	\$ 2.3
Operating grants and contributions	21.8	22.0
General revenue:		
Property taxes	11.7	12.1
State foundation allowance	27.5	29.3
Other	<u>1.7</u>	<u>0.5</u>
Total revenue	64.8	66.2
<b>Functions/Program Expenses</b>		
Instruction	33.4	36.7
Support services	23.5	24.2
Athletics	0.8	0.8
Food services	3.6	3.4
Community services	0.7	0.4
Interest on long-term debt	1.8	3.0
Debt issuance costs	<u>0.3</u>	<u>-</u>
Total functions/program expenses	<u>64.1</u>	<u>68.5</u>
<b>Change in Net Position</b>	0.7	(2.3)
<b>Net Position - Beginning of year</b>	<u>(19.9)</u>	<u>(17.6)</u>
<b>Net Position - End of year</b>	<u><u>\$ (19.2)</u></u>	<u><u>\$ (19.9)</u></u>

# **Battle Creek Public Schools**

## **Management's Discussion and Analysis (Continued)**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$64.1 million. Activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$21.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$11.7 million in taxes, \$27.5 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements). The School District experienced a small increase in its net position.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources. Unfortunately, it becomes necessary to utilize fund balance to not only offset reductions in state funding, but also to maintain necessary programs to meet state requirements.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Examining the various funds helps the reader consider whether the School District is being accountable for the resources provided to it while furnishing more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$13.1 million, which is a net decrease of \$0.3 million from last year. This decrease was due mainly to a reduction in the General Fund, our principal operating fund, by \$1.7 million. Offsetting the reduction were increases to the Building and Site Fund (\$0.8 million), the Food Service Fund (\$0.5 million), and the 2007 Debt Fund (\$0.2 million).

Some of the significant events that impacted the financial results are as follows:

- The original adopted budget showed a projected decrease to the General Fund fund balance of approximately \$490,000. However, fluctuations in overall expenditures resulted in an actual usage of fund balance of approximately \$1.7 million. These increases were attributable to an increased cost of utilities as well as fringe benefits. A reduction in state funding due to loss of students, as well as maintaining existing educational programs at expected levels to meet state guidelines, resulted in a necessary use of fund balance.
- Within the School District's special revenue fund, the Math and Science Center Fund decreased approximately \$67,000. The special revenue Food Services Fund increased by approximately \$486,000 due to maintaining a cost effective program.
- The Building and Site Fund Capital projects fund reported an increase in fund balance of approximately \$826,000. This increase in funds was primarily due to consistent sinking fund debt millage revenue, and a decreased amount of capital outlay.

# Battle Creek Public Schools

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were revisions made to the 2015-2016 General Fund original budgets. Budgeted revenue was revised due to a decrease in local, state, and federal revenue due to a reduction in grant funding being awarded and utilized as well as a reduction in state revenue. There was also a shift in special education funding from governmental to state resulting from staffing alignments. Budgeted expenditures were revised due to changes in utilities, benefits, and purchased services.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2016, the School District had \$101.9 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment as well as construction in progress. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$1.8 million, or 1.7 percent, compared to 2015.

	<u>2016</u>	<u>2015</u>
Land	\$ 3,913,592	\$ 3,913,592
Buildings and building improvements	119,739,292	118,746,497
Buses and other vehicles	4,426,760	4,619,383
Furniture and equipment	<u>11,638,193</u>	<u>11,278,400</u>
Total capital assets	139,717,837	138,557,872
Less accumulated depreciation	<u>(37,855,419)</u>	<u>(34,901,736)</u>
Net capital assets	<u><b>\$ 101,862,418</b></u>	<u><b>\$ 103,656,136</b></u>

We present more detailed information about our capital assets in the notes to the financial statements.

# Battle Creek Public Schools

## Management's Discussion and Analysis (Continued)

### Debt

At the end of this year, the School District had \$50.8 million in bonds outstanding, which is \$6.2 million less than the previous year. Those bonds consisted of the following:

	<u>2016</u>	<u>2015</u>
2007 Bond Building and Site	\$ 1,550,000	\$ 57,015,000
2016 Refunding Bonds	<u>49,265,000</u>	<u>-</u>
Total	<u><u>\$ 50,815,000</u></u>	<u><u>\$ 57,015,000</u></u>

The School District announced the successful sale of its 2016 Refunding Bonds in the amount of \$49.3 million. The bonds were issued for the purpose of substantially refunding the School District's outstanding 2007 School Building and Site General Obligation Unlimited Tax bonds, and to pay the costs of issuing the bonds.

Other obligations include accrued sick leave and self-insurance liabilities. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended full-time equated student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is expected to be 10 percent and 90 percent of the February 2016 and October 2016 student counts, respectively. The 2016-2017 budget was adopted in June 2016 based on an estimate of students that will be enrolled in October 2016. Also taken into consideration is the lack of funding increases in the foundation allowance per pupil due to state funding shortfalls. Approximately 66 percent of total budgeted General Fund revenue is revenue from the State. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual school district resources are not sufficient to fund original appropriations. The School District makes these initial adjustments and adopts the amendments at the annual November board meeting, with further review the following February.

Since the School District's revenue is heavily dependent on state aid, the revenue received in the state's School Aid Fund is directly related to the State's effectiveness at collecting taxes for the purpose of funding education.

# Battle Creek Public Schools

## Statement of Net Position June 30, 2016

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 8,876,485
Receivables (Note 5)	8,723,319
Due from fiduciary funds (Note 7)	198,971
Inventories	1,481,101
Prepaid costs and other assets	302,102
Restricted assets (Note 10)	4,064,076
Capital assets - Net (Note 6)	<u>101,862,418</u>
Total assets	125,508,472
<b>Deferred Outflows of Resources</b>	
Deferred charges on bond refunding (Note 9)	3,553,894
Deferred outflows related to pensions (Note 12)	<u>8,499,886</u>
Total deferred outflows of resources	<u>12,053,780</u>
Total assets and deferred outflows of resources	137,562,252
<b>Liabilities</b>	
Accounts payable	1,037,044
Accrued payroll and other liabilities	5,025,850
State aid anticipation note (Note 13)	2,011,959
Accrued interest	423,459
Due to other governmental units	856,026
Unearned revenue (Note 5)	1,640,081
Noncurrent liabilities (Note 9):	
Due within one year	2,151,916
Due in more than one year	58,272,965
Net pension liability (Note 12)	<u>79,741,569</u>
Total liabilities	151,160,869
<b>Deferred Inflows of Resources</b>	
Deferred inflows (Notes 1 and 12)	<u>5,630,908</u>
Total liabilities and deferred inflows of resources	<u>156,791,777</u>
<b>Net Position</b>	
Net investment in capital assets	46,696,169
Restricted:	
Debt service	575,480
Capital projects (sinking fund)	2,922,018
Unrestricted	<u>(69,423,192)</u>
Total net position	<u><u>\$ (19,229,525)</u></u>

# Battle Creek Public Schools

## Statement of Activities Year Ended June 30, 2016

	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 33,391,755	\$ 125,002	\$ 10,460,293	\$ (22,806,460)
Support services	23,496,232	1,636,199	7,336,596	(14,523,437)
Athletics	761,980	87,742	-	(674,238)
Food services	3,571,477	246,645	3,954,274	629,442
Community services	663,473	-	1,294	(662,179)
Payments to other public schools	20,127	-	-	(20,127)
Interest	1,848,107	-	-	(1,848,107)
Debt issuance costs	321,260	-	-	(321,260)
<b>Total primary government</b>	<b>\$ 64,074,411</b>	<b>\$ 2,095,588</b>	<b>\$ 21,752,457</b>	<b>(40,226,366)</b>
General revenue:				
Taxes:				
Property taxes, levied for general purposes				5,513,738
Property taxes, levied for debt service				4,212,970
Property taxes, levied for capital projects				1,946,581
State aid not restricted to specific purposes				27,528,315
Gain on the sale of capital assets				6,400
Other				1,732,881
				<u>40,940,885</u>
				<b>Change in Net Position</b> 714,519
				<b>Net Position - Beginning of year</b> <u>(19,944,044)</u>
				<b>Net Position - End of year</b> <u>\$ (19,229,525)</u>

# Battle Creek Public Schools

## Governmental Funds Balance Sheet June 30, 2016

	General Fund	Math and Science Center	Building and Site Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 8,562,782	\$ 200	\$ -	\$ 313,503	\$ 8,876,485
Receivables (Note 5)	8,506,347	43,958	-	173,014	8,723,319
Due from other funds (Note 7)	255,257	1,647,830	-	1,134,549	3,037,636
Inventories	137,351	1,253,918	-	89,832	1,481,101
Prepaid costs and other assets	108,058	4,044	-	190,000	302,102
Restricted assets (Note 10)	-	-	3,065,137	998,939	4,064,076
<b>Total assets</b>	<b>\$17,569,795</b>	<b>\$ 2,949,950</b>	<b>\$ 3,065,137</b>	<b>\$ 2,899,837</b>	<b>\$ 26,484,719</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 737,125	\$ 78,204	\$ 118,624	\$ 103,091	\$ 1,037,044
Accrued payroll-related liabilities	4,882,824	134,354	-	8,672	5,025,850
State aid anticipation note (Note 13)	2,011,959	-	-	-	2,011,959
Due to other governmental units	856,026	-	-	-	856,026
Due to other funds (Note 7)	2,814,170	-	24,495	-	2,838,665
Unearned revenue (Note 5)	1,531,838	105,687	-	2,556	1,640,081
<b>Total liabilities</b>	<b>12,833,942</b>	<b>318,245</b>	<b>143,119</b>	<b>114,319</b>	<b>13,409,625</b>
<b>Fund Balances</b>					
Nonspendable:					
Inventory	137,351	1,253,918	-	89,832	1,481,101
Prepaid assets	108,058	4,044	-	190,000	302,102
Restricted:					
Debt service	-	-	-	999,049	999,049
Food service	-	-	-	1,506,637	1,506,637
Capital Projects (Sinking Fund)	-	-	2,922,018	-	2,922,018
Math and Science Center	-	1,373,743	-	-	1,373,743
Assigned - Budgeted use of fund balance in subsequent year	3,556,700	-	-	-	3,556,700
Unassigned	933,744	-	-	-	933,744
<b>Total fund balances</b>	<b>4,735,853</b>	<b>2,631,705</b>	<b>2,922,018</b>	<b>2,785,518</b>	<b>13,075,094</b>
<b>Total liabilities and fund balances</b>	<b>\$17,569,795</b>	<b>\$ 2,949,950</b>	<b>\$ 3,065,137</b>	<b>\$ 2,899,837</b>	<b>\$ 26,484,719</b>

# Battle Creek Public Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2016

**Fund Balance Reported in Governmental Funds** \$ 13,075,094

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

Cost of capital assets	\$ 139,717,837	
Accumulated depreciation	<u>(37,855,419)</u>	101,862,418

Deferred outflows related to pension payments made subsequent to the measurement date 8,499,886

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable, including unamortized premium	(58,720,143)	
Compensated absences	(1,517,557)	
Self-insurance	<u>(187,181)</u>	(60,424,881)

Accrued interest payable is not included as a liability in governmental funds (423,459)

Deferred charges are not capitalized in the governmental funds 3,553,894

Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities (79,741,569)

Deferred inflows related to pension and revenue in support of pension contributions made subsequent to the measurement date are not reported in the governmental funds (5,630,908)

**Net Position of Governmental Activities** **\$ (19,229,525)**

# Battle Creek Public Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Math and Science Center	Building and Site Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>					
Local sources	\$ 8,198,719	\$ 1,560,688	\$ 1,956,564	\$ 4,520,038	\$ 16,236,009
State sources	35,231,449	1,542,790	-	192,428	36,966,667
Federal sources	6,394,482	-	-	3,961,668	10,356,150
Intergovernmental and other sources	2,639,360	-	-	-	2,639,360
Total revenue	52,464,010	3,103,478	1,956,564	8,674,134	66,198,186
<b>Expenditures</b>					
Current:					
Instruction	31,668,042	970,088	-	-	32,638,130
Support services	20,998,260	2,170,418	-	314,101	23,482,779
Athletics	594,992	-	-	-	594,992
Food services	-	-	-	3,499,925	3,499,925
Community services	492,116	-	-	-	492,116
Debt service:					
Principal	-	-	-	1,475,000	1,475,000
Interest	-	-	-	1,899,773	1,899,773
Other	-	-	-	338,461	338,461
Capital outlay	432,666	29,845	1,130,834	141,500	1,734,845
Intergovernmental transfers	20,127	-	-	-	20,127
Total expenditures	54,206,203	3,170,351	1,130,834	7,668,760	66,176,148
<b>Excess of Revenue (Under) Over Expenditures</b>	(1,742,193)	(66,873)	825,730	1,005,374	22,038
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	6,400	-	-	-	6,400
Payment to escrow agent	-	-	-	(57,601,215)	(57,601,215)
Face value of debt issued	-	-	-	49,265,000	49,265,000
Premium on debt issued	-	-	-	7,998,234	7,998,234
Total other financing sources (uses)	6,400	-	-	(337,981)	(331,581)
<b>Net Change in Fund Balances</b>	(1,735,793)	(66,873)	825,730	667,393	(309,543)
<b>Fund Balances - Beginning of year</b>	6,471,646	2,698,578	2,096,288	2,118,125	13,384,637
<b>Fund Balances - End of year</b>	<u>\$ 4,735,853</u>	<u>\$ 2,631,705</u>	<u>\$ 2,922,018</u>	<u>\$ 2,785,518</u>	<u>\$ 13,075,094</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Battle Creek Public Schools

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ (309,543)

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

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

Depreciation expense	\$ (3,152,350)	
Capitalized capital outlay	<u>1,358,632</u>	(1,793,718)

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities (49,265,000)

Underwriter's premium net of deferred charge is reported as expenditures/revenue in the funds and amortized in the statement of activities (3,606,184)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 55,465,000

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 51,666

Revenue in support of pension contributions made subsequent to measurement date (2,179,290)

Change in pension expense related to deferred items 2,089,562

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than earned 262,026

**Change in Net Position of Governmental Activities** \$ 714,519

# Battle Creek Public Schools

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	<u>Agency Funds</u>	<u>Trust Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments (Note 3)	\$ 150,068	\$ 2,128,525	\$ 2,278,593
Due from other funds (Note 7)	31,791	-	31,791
Receivables (Note 5)	953	-	953
Inventories	18,805	-	18,805
Prepaid expenses	1,050	-	1,050
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 202,667</u>	2,128,525	2,331,192
<b>Liabilities</b>			
Accounts payable	\$ 14,585	2,310	16,895
Due to student groups	188,082	-	188,082
Due to other funds (Note 7)	-	230,762	230,762
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>\$ 202,667</u>	233,072	435,739
<b>Net Position</b>		<u>\$ 1,895,453</u>	<u>\$ 1,895,453</u>

# Battle Creek Public Schools

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## Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2016

	<u>Trust Fund</u>
<b>Revenue</b>	
Contributions	\$ 4,342
Investment gain	<u>27,859</u>
Total additions	32,201
<b>Expenses</b>	<u>161,303</u>
<b>Change in Net Position</b>	(129,102)
<b>Net Position - Beginning of year</b>	<u>2,024,555</u>
<b>Net Position - End of year</b>	<u><u>\$ 1,895,453</u></u>

# **Battle Creek Public Schools**

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## **Notes to Financial Statements June 30, 2016**

### **Note I - Summary of Significant Accounting Policies**

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

#### **Reporting Entity**

The School District is governed by an elected 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. Based on the application of the criteria, the School District does not contain any component units.

#### **District-wide and Fund Financial Statements**

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

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

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

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

**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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is 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 School District.

### Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also 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 the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**Special Revenue Fund - Math and Science Center** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. Revenue sources for the Math and Science Center include sales to customers and dedicated grants from state sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Building and Site Fund** - Capital projects funds are used to account for resources specifically designed for the acquisition and construction of facilities and for major capital improvements to facilities related to a sinking fund millage approved by the taxpayers. Activities related to the sinking fund millage are recorded in the Building and Site Fund. Such revenue can only be expendable for allowable capital projects purposes in accordance with the initial ballot language.

Additionally, the School District reports the following fund types:

**Special Revenue Fund - Food Services Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. Revenue sources for the Food Services Fund include sales to customers and dedicated grants from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Fund** - The 2007 Debt Fund is the School District's only debt service fund. The fund is used to record property tax revenue and the corresponding principal and interest payments for the 2007 bond issue and 2016 Refunding bonds.

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

**Private-purpose Trust Fund** - The Private-purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

# Battle Creek Public Schools

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Position or Equity

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with varying maturities, which include marketable securities within the private-purpose trust fund. Investments are stated at fair value. Private-purpose trust fund investment income is directly allocated to that fund. Other investment income is pooled and is generally allocated to each fund based on the average monthly balances of each respective fund.

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due August 20 and December 1 for the remainder of the property taxes, which are due on February 14. The final collection date is February 28, after which delinquent real property taxes are added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. The Math and Science Center Fund inventory consists of supplies and materials to be compiled into kits that are sold primarily to other districts. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

**Restricted Assets** - The unspent property tax revenue of the Debt Service Fund requires amounts to be set aside for future bond payments. This amount has been classified as restricted assets and consists of cash and investments. In addition, the unspent property taxes levied in the Sinking Fund are required to be set aside for future approved Sinking Fund projects.

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

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

Buildings and building additions	10 to 50 years
Buses and other vehicles	7 years
Furniture and other equipment	5 to 20 years

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age are included.

**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. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position includes a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. The School District has a deferred charge on refunding reported in the district-wide statement of net position. A deferred charge on refunding results from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The other item is the deferred outflow related to the School District's participation in the statewide pension plan, as disclosed in Note 12.

# Battle Creek Public Schools

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## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of these items, which arise only under a full accrual basis of accounting, that qualify for reporting in this category. Deferred inflows at June 30, 2016 include \$2,179,290 for funding received through state appropriations for contributions to the MPERS pension plan after measurement date and \$3,451,618 related to the pension plan described in Note 12.

**Fund Balance** - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following: nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or finance director, who is authorized by a policy approved by the Board of Education to make assignments
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

# Battle Creek Public Schools

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## Notes to Financial Statements June 30, 2016

### Note 1 - Summary of Significant Accounting Policies (Continued)

**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 at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data** - Comparative data is not included in the School District's financial statements.

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**Adoption of New Standard** - As of June 30, 2016, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, and No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost. The adoption did not have a significant impact on amounts reported in the financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles, with the exception of classification of certain interfund payments and requirements under state law, for the General Fund and the Special Revenue and Capital Projects Funds. All annual appropriations lapse at fiscal year end.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The School District's Board of Education has authorized administration to make transfers of appropriations within or between functions in an amount not to exceed 5 percent of the amount of the appropriation from which the transfer is made. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District changed budgeted amounts during the year in response to state aid and other funding changes.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School District did not have significant expenditure budget variances.

**Capital Projects Fund Compliance** - The Building and Site Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

### Note 3 - Deposits and Investments

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 offices 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. The School District's deposits are in accordance with statutory authority. The School District also holds funds in trust for other parties, which are invested in common stocks and other investments.

The School District has designated four banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$7,050,229 had \$6,702,787 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial credit risk.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>How Held</u>
Stocks (Note 4)	\$ 957,770	Held by counterparty's trust department in School District's name
Corporate bonds/notes (Note 4)	1,080,157	Held by counterparty's trust department in School District's name
Total investments	<u>\$ 2,037,927</u>	

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within five years of the date of purchase, except for commercial paper, which can only be purchased with a 270-day maturity. In addition, no more than 25 percent of the School District's portfolio may be invested in investments with a maturity of greater than three years. However, some of the investments in the School District's portfolio have maturities greater than five years from the date of purchase. As of June 30, 2016, the School District holds approximately \$296,000 of investments that have a maturity greater than five years.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund - MAX Class	\$ 4,546,431	N/A	AAAm	S&P
Michigan Liquid Asset Fund - Cash Management	<u>1,895,930</u>	N/A	AAAm	S&P
Total investments	<u>\$ 6,442,361</u>			

**Investment Restrictions** - The Michigan Liquid Asset Fund - MAX Class investment may not be redeemed for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. In addition, redemptions made prior to the 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed. The Michigan Liquid Asset Fund - Cash Management investment has no limitations or restrictions on participant withdrawals except for a one-day minimum investment period.

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in U.S. Treasury debt obligations, U.S. agency debt obligations, or SEC-registered money market funds. With the previous exception, the School District's investment policy states that no one issuer or group of issuers from the same holding company can exceed 5 percent of the market value of the portfolio at the time of purchase. The School District does not have more than 5 percent of its investments in any one issue.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### Note 4 - Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 4 - Fair Value Measurement (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The School District has the following recurring fair value measurements as of June 30, 2016:

#### Assets Measured at Fair Value on a Recurring Basis

	Fair Value Measurement Using			
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities -				
Corporate bonds	\$ 1,080,157	\$ -	\$ 1,080,157	\$ -
Equity securities:				
Domestic stock	682,023	682,023	-	-
International stock	114,406	114,406	-	-
Mutual funds	161,341	161,341	-	-
Total equity securities	957,770	957,770	-	-
Total investments by fair value level	2,037,927	\$ 957,770	\$ 1,080,157	\$ -
Total investments measured at fair value	\$ 2,037,927			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities at June 30, 2016 was determined primarily based on Level 2 inputs. The School District estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 5 - Receivables and Unearned Revenue

Receivables as of year end for the School District's each individual major fund, the nonmajor funds in the aggregate, and fiduciary funds are as follows:

	General Fund	Math and Science Center	Nonmajor Funds	Total	Fiduciary Funds
Receivables:					
Accounts receivable	\$ 135,201	\$ 30,697	\$ 4,754	\$ 170,652	\$ 953
Due from other governmental units	8,371,146	13,261	168,260	8,552,667	-
Total receivables	<u>\$ 8,506,347</u>	<u>\$ 43,958</u>	<u>\$ 173,014</u>	<u>\$ 8,723,319</u>	<u>\$ 953</u>

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

	Unavailable	Liability - Unearned
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ -</u>	<u>\$ 1,640,081</u>

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2015	Additions	Disposals and Adjustments	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 3,913,592	\$ -	\$ -	\$ 3,913,592
Capital assets being depreciated:				
Buildings and improvements	118,746,497	992,795	-	119,739,292
Furniture and equipment	11,278,400	359,793	-	11,638,193
Buses and other vehicles	4,619,383	6,044	(198,667)	4,426,760
Subtotal	134,644,280	1,358,632	(198,667)	135,804,245
Accumulated depreciation:				
Buildings and improvements	23,522,791	2,371,986	-	25,894,777
Furniture and equipment	7,594,049	625,305	-	8,219,354
Buses and other vehicles	3,784,896	155,059	(198,667)	3,741,288
Subtotal	34,901,736	3,152,350	(198,667)	37,855,419
Net capital assets being depreciated	99,742,544	(1,793,718)	-	97,948,826
Net capital assets	<u>\$ 103,656,136</u>	<u>\$ (1,793,718)</u>	<u>\$ -</u>	<u>\$ 101,862,418</u>

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

Governmental activities:		
Instruction		\$ 2,332,118
Support services		416,609
Community services		186,730
Food services		26,933
Athletics		189,960
Total governmental activities		<u>\$ 3,152,350</u>

### Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Building and Site Fund	Fiduciary Funds	
General Fund	\$ -	\$ 24,495	\$ 230,762	\$ 255,257
Math and Science Center	1,647,830	-	-	1,647,830
Nonmajor governmental funds	1,134,549	-	-	1,134,549
Fiduciary funds	31,791	-	-	31,791
Total	<u>\$ 2,814,170</u>	<u>\$ 24,495</u>	<u>\$ 230,762</u>	<u>\$ 3,069,427</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from investment accounts.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 8 - Operating Leases

The building and real estate used by Willard Library are being leased from the School District for \$1 per year. The fair market value of this lease is not known.

### Note 9 - Long-term Debt

The School District issues bonds 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 and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable	\$ 57,015,000	\$ 49,265,000	\$ 55,465,000	\$ 50,815,000	\$ 1,550,000
Issuance premiums	745,065	7,998,234	838,156	7,905,143	414,735
Total bonds payable	57,760,065	57,263,234	56,303,156	58,720,143	1,964,735
Other obligations	1,966,764	-	262,026	1,704,738	187,181
Total governmental activities	<u>\$ 59,726,829</u>	<u>\$ 57,263,234</u>	<u>\$ 56,565,182</u>	<u>\$ 60,424,881</u>	<u>\$ 2,151,916</u>

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 1,550,000	\$ 2,485,700	\$ 4,035,700
2018	1,505,000	2,408,200	3,913,200
2019	1,580,000	2,332,950	3,912,950
2020	1,655,000	2,253,950	3,908,950
2021	1,740,000	2,171,200	3,911,200
2022-2026	10,095,000	9,400,750	19,495,750
2027-2031	12,850,000	6,699,500	19,549,500
2032-2036	16,120,000	8,564,375	24,684,375
2037	3,720,000	186,000	3,906,000
Total	<u>\$ 50,815,000</u>	<u>\$ 36,502,625</u>	<u>\$ 87,317,625</u>

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 9 - Long-term Debt (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

\$49,265,000 2016 refunding bonds due in annual installments of \$1,505,000 to \$3,720,000 through May 2037; interest from 4.00 percent to 5.00 percent	\$ 49,265,000
\$67,705,000 2007 School Building and Site General Obligation Unlimited Tax bonds due in full in May 2017; interest at 5.00 percent	<u>1,550,000</u>
Total bonded debt	<u>\$ 50,815,000</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 1,517,557
Self-insurance - Workers' compensation reserves	<u>187,181</u>
Total	<u>\$ 1,704,738</u>

**Advance and Current Refundings** - During the year, the School District issued \$49,265,000 in general obligation bonds with an average interest rate of 4.88 percent. The proceeds of these bonds were used to advance refund \$53,990,000 of outstanding 2007 School Building and Site General Obligation Unlimited Tax bonds with an average interest rate of 5.00 percent. The net proceeds of \$57,601,215 (after payment of \$326,019 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$8,800,000, which represents an economic gain of approximately \$6,600,000.

At June 30, 2016, \$53,990,000 of bonds outstanding are considered defeased.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 10 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent sinking fund proceeds and related interest	\$ 3,065,137
Unspent debt service funds	<u>998,939</u>
Total restricted assets	<u>\$ 4,064,076</u>

### Note 11 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefits provided to most employees and participates in the Middle Cities Risk Management Trust risk pool for claims relating to property and liability loss and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The School District is also self-funded for medical and dental benefits for a small number of employee groups.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District is partially uninsured for workers' compensation claims. Under the plan, the School District's maximum loss is limited to \$500,000 per occurrence. Losses in excess of this limitation are insured up to an aggregate annual limit of \$5,000,000 and a cumulative (per occurrence) limit of \$12,000,000. At June 30, 2016, the School District's administration does not believe that the liability for claims incurred but not reported is material. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2016</u>	<u>2015</u>
Estimated liability - Beginning of year	\$ 329,228	\$ 80,026
Estimated claims incurred - Including changes in estimates	8,020	372,887
Claim payments	<u>(150,067)</u>	<u>(123,685)</u>
Unpaid claims - End of year	<u>\$ 187,181</u>	<u>\$ 329,228</u>

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 12 - Michigan Public School Employees Retirement System

**Plan Description** - The School District participates in the Michigan Public School Employees Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

**Contributions** - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

School districts' contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

**School District**

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - June 30, 2016	14.56% - 18.95%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the year ended June 30, 2016 was \$7,866,204. The School District's required and actual contributions include an allocation of \$2,179,290 revenue received from the State of Michigan, and remitted to the system, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 12 - Michigan Public School Employees Retirement System (Continued)

**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.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2016, the School District reported a liability of \$79,741,569 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, which used updated procedures to roll forward the estimated liability to September 30, 2015. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015, the School District's proportion was 0.326475 percent.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 12 - Michigan Public School Employees Retirement System (Continued)

For the year ended June 30, 2016, the School District recognized pension expense of \$5,917,286, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 264,127
Changes of assumptions	1,963,406	-
Net difference between projected and actual earnings on pension plan assets	407,016	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	131,343	3,187,491
The School District's contributions subsequent to the measurement date	<u>5,998,121</u>	<u>-</u>
Total	<u>\$ 8,499,886</u>	<u>\$ 3,451,618</u>

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

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ (598,822)
2018	(598,822)
2019	(705,208)
2020	952,999
2021	-
Thereafter	<u>-</u>
Total	<u>\$ (949,853)</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 12 - Michigan Public School Employees Retirement System (Continued)

**Actuarial Assumptions** - The total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3 percent annual non-compounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00-8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 12 - Michigan Public School Employees Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.0	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	16.0	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the School District calculated using the discount rate of 7.00-8.00 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 102,807,325	\$ 79,741,569	\$ 60,296,193

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan** - At June 30, 2016, the School District reported a payable of \$1,418,534 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

# Battle Creek Public Schools

## Notes to Financial Statements June 30, 2016

### Note 12 - Michigan Public School Employees Retirement System (Continued)

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 2.2 percent to 2.71 percent of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were approximately \$1,508,000, \$1,230,000, and \$2,575,000, respectively. In addition, a portion ranging from 35-100 percent of the the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

### Note 13 - State Aid Anticipation Note

On November 12, 2015, the School District borrowed \$2,000,000 in a state aid anticipation note. The note bears interest at 0.94 percent and is due October 21, 2016. At June 30, 2016, the School District has accrued interest of \$11,959 on this note, making the total liability \$2,011,959 at June 30, 2016. The notes were repaid in full subsequent to June 30, 2016.

On October 12, 2016, the School District borrowed \$4,950,000 in a state aid anticipation note at 1.05 percent annual interest. There are no monthly installment payments due with this note. The note plus interest is due August 31, 2017.

# **Battle Creek Public Schools**

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## **Notes to Financial Statements June 30, 2016**

### **Note 14 - Contingent Liabilities**

There are several outstanding litigation cases in which the School District is named as the defendant. The School District plans to vigorously defend these cases. As of the date of this report, the outcome of these cases is uncertain and therefore, no reserve has been recorded.

### **Note 15 - Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

## **Required Supplemental Information**

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# Battle Creek Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	(Under) Over <u>Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 8,299,681	\$ 8,239,799	\$ 8,198,719	\$ (41,080)
State sources	36,373,759	35,574,640	35,231,449	(343,191)
Federal sources	6,260,817	6,823,469	6,394,482	(428,987)
Governmental - Intergovernmental	<u>3,081,401</u>	<u>3,417,175</u>	<u>2,639,360</u>	<u>(777,815)</u>
Total revenue	54,015,658	54,055,083	52,464,010	(1,591,073)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	23,474,574	23,132,316	23,227,358	95,042
Added needs	8,321,480	8,295,451	8,213,180	(82,271)
Adult/Continuing education	<u>331,367</u>	<u>337,065</u>	<u>327,868</u>	<u>(9,197)</u>
Total instruction	32,127,421	31,764,832	31,768,406	3,574
Support services:				
Pupil	2,836,317	2,221,969	1,967,812	(254,157)
Instructional staff	3,626,792	4,681,786	4,452,525	(229,261)
General administration	615,941	615,502	244,419	(371,083)
School administration	2,768,015	3,075,185	3,161,127	85,942
Business	1,031,443	994,739	934,387	(60,352)
Operations and maintenance	6,336,599	6,677,563	6,372,728	(304,835)
Transportation	2,390,424	2,384,266	2,361,763	(22,503)
Support services central	<u>2,120,048</u>	<u>2,167,190</u>	<u>1,835,801</u>	<u>(331,389)</u>
Total support services	21,725,579	22,818,200	21,330,562	(1,487,638)
Athletics	622,693	629,651	594,992	(34,659)
Community services	297,463	509,493	492,116	(17,377)
Transfers to other funds	(287,448)	(269,000)	-	269,000
Intergovernmental transfers	<u>20,000</u>	<u>27,000</u>	<u>20,127</u>	<u>(6,873)</u>
Total expenditures	<u>54,505,708</u>	<u>55,480,176</u>	<u>54,206,203</u>	<u>(1,273,973)</u>
<b>Other Financing Sources -</b>				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>6,400</u>	<u>6,400</u>
<b>Net Change in Fund Balance</b>	(490,050)	(1,425,093)	(1,735,793)	(310,700)
<b>Fund Balance - Beginning of year</b>	<u>6,471,646</u>	<u>6,471,646</u>	<u>6,471,646</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 5,981,596</u></u>	<u><u>\$ 5,046,553</u></u>	<u><u>\$ 4,735,853</u></u>	<u><u>\$ (310,700)</u></u>

# Battle Creek Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - Math and Science Center Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 2,134,282	\$ 2,134,282	\$ 1,560,688	\$ (573,594)
State sources	1,622,637	1,585,032	1,542,790	(42,242)
Total revenue	3,756,919	3,719,314	3,103,478	(615,836)
<b>Expenditures - Current</b>				
Instruction	1,119,608	1,103,534	970,088	(133,446)
Support services:				
Pupil	26,913	26,913	-	(26,913)
Instructional staff	1,418,041	1,411,693	1,094,144	(317,549)
General administration	85,000	85,000	82,478	(2,522)
School administration	488,609	481,270	466,146	(15,124)
Business	276,000	276,000	194,314	(81,686)
Operations and maintenance	397,460	394,318	337,701	(56,617)
Central	292,906	292,906	25,480	(267,426)
Total support services	2,984,929	2,968,100	2,200,263	(767,837)
Total expenditures	4,104,537	4,071,634	3,170,351	(901,283)
<b>Excess of Expenditures Over Revenue</b>	(347,618)	(352,320)	(66,873)	285,447
<b>Net Change in Fund Balance</b>	(347,618)	(352,320)	(66,873)	285,447
<b>Fund Balance - Beginning of year</b>	2,698,578	2,698,578	2,698,578	-
<b>Fund Balance - End of year</b>	<u>\$ 2,350,960</u>	<u>\$ 2,346,258</u>	<u>\$ 2,631,705</u>	<u>\$ 285,447</u>

# Battle Creek Public Schools

## Required Supplemental Information

### Schedule of Battle Creek Public Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees Retirement System Determined as of the Plan Year Ended September 30

	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability (asset)	0.32647 %	0.34357 %
School District's proportionate share of the net pension liability (asset)	\$ 79,741,569	\$ 75,677,164
School District's covered employee payroll	\$ 27,781,162	29,695,625
School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	287.03 %	254.84 %
Plan fiduciary net position as a percentage of the total pension liability	62.92 %	66.20 %

# Battle Creek Public Schools

## Required Supplemental Information Schedule of Battle Creek Public Schools' Contributions Michigan Public School Employees Retirement System Determined as of the Year Ended June 30

	2016	2015
Statutorily required contribution	\$ 7,549,920	\$ 5,654,487
Contributions in relation to the statutorily required contribution	7,549,920	\$ 5,654,487
Contribution deficiency (excess)	-	-
School District's covered employee payroll	27,057,569	25,834,320
Contributions as a percentage of covered employee payroll	27.90 %	21.89 %

## **Battle Creek Public Schools**

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### **Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2016**

**Benefit Changes** - There were no changes of benefit terms for the plan year ended September 30, 2015.

**Changes in Assumptions** - There were no changes of benefit assumptions for the plan year ended September 30, 2015.

## **Other Supplemental Information**

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# Battle Creek Public Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Assets</b>	Food Service	2007 Debt Fund	
Cash and investments	\$ 313,503	\$ -	\$ 313,503
Receivables	168,260	4,754	173,014
Due from other funds	1,134,549	-	1,134,549
Inventories	89,832	-	89,832
Prepaid costs and other assets	190,000	-	190,000
Restricted assets	-	998,939	998,939
Total assets	<b>\$ 1,896,144</b>	<b>\$ 1,003,693</b>	<b>\$ 2,899,837</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 98,447	\$ 4,644	\$ 103,091
Accrued payroll-related liabilities	8,672	-	8,672
Unearned revenue	2,556	-	2,556
Total liabilities	109,675	4,644	114,319
<b>Fund Balances</b>			
Nonspendable:			
Inventory	89,832	-	89,832
Prepaid assets	190,000	-	190,000
Restricted:			
Debt service	-	999,049	999,049
Food service	1,506,637	-	1,506,637
Total fund balances	1,786,469	999,049	2,785,518
Total liabilities and fund balances	<b>\$ 1,896,144</b>	<b>\$ 1,003,693</b>	<b>\$ 2,899,837</b>

# Battle Creek Public Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2016

	Special Revenue Fund	Debt Service Funds	Total Nonmajor Governmental Funds
	Food Service	2007 Debt Fund	Funds
<b>Revenue</b>			
Local sources	\$ 287,067	\$ 4,232,971	\$ 4,520,038
State sources	192,428	-	192,428
Federal sources	3,961,668	-	3,961,668
Total revenue	4,441,163	4,232,971	8,674,134
<b>Expenditures</b>			
Current:			
Support services	313,861	240	314,101
Food services	3,499,925	-	3,499,925
Debt service:			
Principal	-	1,475,000	1,475,000
Interest	-	1,899,773	1,899,773
Other	-	338,461	338,461
Capital outlay	141,500	-	141,500
Total expenditures	3,955,286	3,713,474	7,668,760
<b>Excess of Revenue Over Expenditures</b>	485,877	519,497	1,005,374
<b>Other Financing Sources (Uses)</b>			
Payment to escrow agent	-	(57,601,215)	(57,601,215)
Face value of debt issued	-	49,265,000	49,265,000
Premium on debt issued	-	7,998,234	7,998,234
Total other financing sources (uses)	-	(337,981)	(337,981)
<b>Net Change in Fund Balances</b>	485,877	181,516	667,393
<b>Fund Balances - Beginning of year</b>	1,300,592	817,533	2,118,125
<b>Fund Balances - End of year</b>	<b>\$1,786,469</b>	<b>\$ 999,049</b>	<b>\$ 2,785,518</b>

# Battle Creek Public Schools

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2016

<u>Years Ending June 30</u>	2007 School	2016 Refunding
	Building and Site Bonds	Bonds
	<u>Principal</u>	<u>Principal</u>
2017	\$ 1,550,000	\$ -
2018	-	1,505,000
2019	-	1,580,000
2020	-	1,655,000
2021	-	1,740,000
2022	-	1,825,000
2023	-	1,920,000
2024	-	2,015,000
2025	-	2,115,000
2026	-	2,220,000
2027	-	2,330,000
2028	-	2,445,000
2029	-	2,570,000
2030	-	2,700,000
2031	-	2,805,000
2032	-	2,920,000
2033	-	3,065,000
2034	-	3,215,000
2035	-	3,380,000
2036	-	3,540,000
2037	-	3,720,000
Total principal	<u>\$ 1,550,000</u>	<u>\$ 49,265,000</u>
Principal payments due	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1
Interest rate	4.75% to 5.25%	4.00% to 5.00%
Original issue	<u>\$ 67,705,000</u>	<u>\$ 49,265,000</u>