

**PUBLIC SCHOOLS OF CALUMET, LAURIUM
& KEWEENAW, MICHIGAN**

FINANCIAL REPORT

Year Ended June 30, 2011

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PAUL R. STUROS

Certified Public Accountant

56901 S. Sixth Street, Suite 8

Calumet, MI 49913

Tel. (906) 337-4727 ~ Fax (906) 337-4725

E-mail: psturos@sbcglobal.net

Independent Auditor's Report

Board of Education
Public Schools of Calumet, Laurium & Keweenaw
Calumet, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of Calumet, Laurium & Keweenaw, as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Public Schools of Calumet, Laurium & Keweenaw's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of Calumet, Laurium & Keweenaw, as of June 30, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 11, 2011 on my consideration of the Public Schools of Calumet, Laurium & Keweenaw's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my 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* and should be considered in assessing the results of my audit.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Schools of Calumet, Laurium & Keweenaw's financial statements as a whole. The combining nonmajor fund financial statements and accompanying other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements and other supplemental information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Paul R. Sturos

Paul R. Sturos, CPA
Calumet, Michigan
November 11, 2011

Public Schools of Calumet, Laurium & Keweenaw

**Management Discussion and Analysis
For the Year Ended June 30, 2011**

Our discussion and analysis of the Public Schools of Calumet, Laurium & Keweenaw financial performance provides an overview of the Districts financial activities for the year ended June 30, 2011. Please read this discussion and analysis in conjunction with the District's financial statements, which immediately follow this section.

I. Description of the Basic Financial Statements

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

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the School District's net assets and how they have changed. Net assets, the difference between assets and liabilities, as reported in the statement of net assets, is one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and 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, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved 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

Public Schools of Calumet, Laurium & Keweenaw

Management Discussion and Analysis
For the Year Ended June 30, 2011

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

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

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. 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. The School District maintains a Private Purpose Scholarship Trust Fund entrusted to the District to provide cash grants for their respective purposes. Only the income portion of these trusts typically are spent. The funds are segregated and held in trust for the students.

II. Condensed Government-Wide Financial Information

In a condensed format, Table I provides a comparative summary of the Schools District's net assets as of June 30, 2011 and 2010.

TABLE I

	Governmental <u>Activities</u> (in millions)	
	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 9.3	\$ 10.3
Capital assets, net of accumulated depreciation	<u>13.7</u>	<u>11.2</u>
Total assets	<u>23.0</u>	<u>21.5</u>

Public Schools of Calumet, Laurium & Keweenaw

Management Discussion and Analysis
For the Year Ended June 30, 2011

	<u>2011</u>	<u>2010</u>
Liabilities		
Current liabilities	\$ 4.6	\$ 2.9
Long-term liabilities	<u>12.3</u>	<u>13.0</u>
Total liabilities	<u>16.9</u>	<u>15.9</u>
Net Assets		
Invested in property and equipment, net of related debt	.8	(2.3)
Restricted	4.3	7.2
Unrestricted	<u>1.0</u>	<u>.7</u>
Total net assets	<u>\$ 6.1</u>	<u>\$ 5.6</u>

III. Analysis of the Overall Financial Position and Results of Operations for Governmental Activities

Net Assets

The above analysis (see Table 1) focuses on the net assets. The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were 6.1 million at June 30, 2011. Net investments in property and equipment compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accreted interest on bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining net assets of \$1.0 million are unrestricted.

Statement of Activities

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the comparative changes in net assets for fiscal year 2011 and 2010.

Public Schools of Calumet, Laurium & Keweenaw

**Management Discussion and Analysis
For the Year Ended June 30, 2011**

TABLE 2

	Governmental Activities (in millions)	
	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue:		
Charges for services	\$.3	\$.3
Grants and categoricals	2.7	2.9
General revenue:		
Property taxes	2.4	2.4
State foundation allowance	9.2	8.6
Other	<u>.1</u>	<u> </u>
Total revenue	<u>14.7</u>	<u>14.2</u>
 Functions/Program Expenses		
Instruction	\$ 8.2	\$ 8.6
Support services	4.1	4.6
Food Service	.9	.8
Interest on long-term debt	.6	.3
Depreciation (unallocated)	<u>.4</u>	<u>.3</u>
Total expenses	<u>14.2</u>	<u>14.6</u>
 Increase (Decrease) in Net Assets	 <u>\$.5</u>	 <u>\$ (.4)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$14.2 million. Certain activities were partially funded from those who benefited from the programs (\$.3 million) or by other governments and organizations that subsidized certain programs with grants and categorical revenues (\$2.7 million). We paid for the remaining “public benefit” portion of our governmental activities with \$2.4 million in taxes, \$9.2 million in unrestricted State Aid and with our other revenues, such as interest and general entitlements.

The School District’s net assets were increased by \$.5 million. The balance in net assets differs from the change in fund balance, with the reconciliation appearing in the following financial statements.

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 operation and unrestricted State Aid constitute the vast majority of the School District’s 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.

Public Schools of Calumet, Laurium & Keweenaw

Management Discussion and Analysis
For the Year Ended June 30, 2011

IV. Financial Analysis of the District's Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	<u>2011</u>	<u>2010</u>	Increase (Decrease)
Major Funds			
General Fund	\$ 884,481	\$ 543,533	\$ 340,948
Capital Projects	3,826,779	6,725,517	(2,898,738)
Nonmajor Funds			
Food Services	57,308	146,940	(89,632)
Debt Service	<u>371,163</u>	<u>382,512</u>	<u>(11,349)</u>
Total Governmental Funds	<u>\$5,139,731</u>	<u>\$7,798,502</u>	<u>(\$2,658,771)</u>

In 2011, the General Fund balance increased primarily due to increases in State Aid, reductions in instruction expenditures, and GASB 54 addition of athletic and community service funds. Capital projects, food services and debt service fund balances decreased due to normal operating expenditures.

Public Schools of Calumet, Laurium & Keweenaw

Management Discussion and Analysis
For the Year Ended June 30, 2011

V. **Changes to Budget and Comparison to Actual Results**

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2011, the original budget was adopted on June 28, 2010. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year and the amount of per pupil funding. Since much of the District's revenue is determined based on these two components, these unknowns could have a significant impact on the budget. Often there are a number of other unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2011 are as follows:

General Fund

Changes from Original Budget to Final Budget

Revenue

Local Sources – Decrease in taxes collected due to decreases in taxable value of Non-Homestead property and Headlee Millage reduction.

State Sources – Increase in state aid due to decrease in local tax revenue and addition of 94a9 and 152a for data collection.

Federal Sources – ARRA stabilization and ARRA Title I carryover.

Incoming Transfers – Tuition for neighboring district's ROTC students.

Expenditures

Basic Programs – No significant changes.

Added Needs – Decrease due to maternity leave for 2 special education teachers, elimination of 1 aide position and 1 accounting course.

Pupil – Decrease due to decreased costs for school nurse and social worker.

Instructional Staff -- Decrease due to decrease in salaries and supplies.

General Administration -- Decrease due to decrease in legal fees.

School Administration – Increase due to secretary returning from leave of absence.

Business Services – Greater than anticipated interest on notes.

Operations and Maintenance – Increase due to termination payments to retiring personnel.

Transportation – Increase due to fuel and repair expense increases and termination payment to retiring personnel.

Central Support Services – Increase due to non-depreciable equipment purchased.

Debt Retirement Costs – Decrease due to decreased debt issuance costs.

Operating Transfers – No significant change.

Public Schools of Calumet, Laurium & Keweenaw

**Management Discussion and Analysis
For the Year Ended June 30, 2011**

Variances between Final Budget and Actual Amounts

Revenue:

Local: Increase in delinquent property taxes received.

Expenditures:

Instructional Staff: Decrease in supplies purchased.

Operations and Maintenance: Decrease in projected inventory.

Debt Retirement: No debt issuance costs.

Public Schools of Calumet, Laurium & Keweenaw

Management Discussion and Analysis
For the Year Ended June 30, 2011

VI. Capital Assets and Debt Administration

Capital Assets

At June 30, 2011, the School District had \$20.8 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase of \$2,951,218 from last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 216,341	\$ 216,341
Buildings and Improvements	18,792,624	15,852,346
Buses and other vehicles	1,009,084	1,009,084
Furniture and equipment	1,008,315	997,375
Total Capital Assets	<u>21,026,364</u>	<u>18,075,146</u>
Less Accumulated depreciation	<u>7,359,203</u>	<u>6,909,722</u>
Net Capital Assets	<u>\$ 13,667,161</u>	<u>\$ 11,165,424</u>

This year's additions of \$2,951,218 include costs for building project construction in progress of \$2,940,278, and a new wood boiler shaker for \$10,940.

Debt

At the end of this year, the School District had \$12.5 million in bonds outstanding compared to \$13.0 million in the previous year. The bonds consist of the following:

	<u>2011</u>	<u>2010</u>
General Obligation Bonds	\$12,525,379	\$13,044,991

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. Other obligations include installment notes payable of \$201,740 and employee-compensated absences totaling \$113,526.

Public Schools of Calumet, Laurium & Keweenaw

**Management Discussion and Analysis
For the Year Ended June 30, 2011**

VII. Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act was approved by the State Legislature prior to the beginning of the school year and provided a foundation amount (amount per student) for the Public Schools of Calumet, Laurium & Keweenaw of \$6,846 for the 2011-2012 school year. It is anticipated that this amount could be reduced, but the district will carefully monitor the results of the Revenue Consensus Meeting, normally held in January and May of each year. This is a meeting between the Senate Fiscal Agency, the House Fiscal Agency, and the Treasury Department to develop a consensus with regard to projected revenues available to finance the State General Fund as well as the School Aid Fund (provisions of the State Aid Act). Other state mandates affecting finances will be the mandatory full day kindergarten requirement to receive full foundation per pupil and the retirement rate will increase to 27.37% from the current rate of 24.46%.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Statement of Net Assets
June 30, 2011**

	Governmental Activities
ASSETS	
Current Assets	
Cash and investments	\$ 6,659,011
Receivables:	
Taxes receivable	197,470
Accounts receivable	23,365
Interest receivable	28,952
Due from other governmental units	2,072,644
Inventory	68,090
Prepaid expenditures	<u>21,385</u>
Total Current Assets	<u>9,070,917</u>
Noncurrent Assets	
Bond issuance costs net of amortization of \$34,717	188,917
Capital assets net of depreciation of \$7,359,203	<u>13,667,161</u>
Total Noncurrent Assets	<u>13,856,078</u>
TOTAL ASSETS	<u>22,926,995</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	789,165
Accrued payroll and other liabilities	1,040,290
Due to other governmental units	249,824
Deferred revenue	30,498
Note payable	1,800,000
Current portion of bonded debt obligations	540,069
Current portion of other long-term obligations	<u>84,819</u>
Total Current Liabilities	<u>4,534,665</u>
Noncurrent Liabilities	
Bonds payable, due in more than one year	12,071,558
Other obligations, due in more than one year	<u>230,447</u>
Total Noncurrent Liabilities	<u>12,302,005</u>
TOTAL LIABILITIES	<u>16,836,670</u>
Net Assets (Deficit)	
Investment in capital assets, net of related debt	853,794
Restricted for food services	57,308
Restricted for debt retirement	372,878
Restricted for capital projects	3,826,779
Unrestricted	<u>979,566</u>
TOTAL NET ASSETS	<u>\$ 6,090,325</u>

See Notes to Financial Statements

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Statement of Activities
Year Ended June 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Primary government- Governmental activities:				
Instruction	\$ 8,200,134	\$ 66,626	\$ 1,721,910	\$ (6,411,598)
Support services	4,111,975	80,234	32,164	(3,999,577)
Food services	924,578	188,699	640,915	(94,964)
Interest on long-term debt	615,463		320,905	(294,558)
Depreciation (unallocated)	<u>355,948</u>			<u>(355,948)</u>
 Total governmental activities	 <u>\$ 14,208,098</u>	 <u>\$ 335,559</u>	 <u>\$ 2,715,894</u>	 <u>(11,156,645)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,548,440
Property taxes, levied for debt retirement				792,390
State aid not restricted to specific purposes				9,234,785
Interest and investment earnings				<u>66,770</u>
Total general revenues				<u>11,642,385</u>
Change in Net Assets				485,740
Net Assets – Beginning of year, as restated				<u>5,604,585</u>
Net Assets – End of year				<u>\$ 6,090,325</u>

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Governmental Funds
Balance Sheets
June 30, 2011**

	General	Capital Projects	Other Nonmajor Governmental Funds	Totals
ASSETS				
Cash and investments	\$ 1,778,622	\$ 4,530,437	\$ 349,952	\$ 6,659,011
Receivables:				
Taxes Receivable	122,826		74,644	197,470
Accounts receivable	9,171		14,194	23,365
Interest receivable		28,952		28,952
Due from other governmental units	2,072,644			2,072,644
Due from other funds	782			782
Inventory	48,629		19,461	68,090
Prepays	18,354		3,031	21,385
Total Assets	<u>\$ 4,051,028</u>	<u>\$ 4,559,389</u>	<u>\$ 461,282</u>	<u>\$ 9,071,699</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 49,135	\$ 731,828	\$ 8,202	\$ 789,165
Accrued payroll & other liabilities	1,008,524		7,402	1,015,926
Due to other governmental units	249,824			249,824
Due to other funds		782		782
Deferred revenue	59,064		17,207	76,271
Note Payable	1,800,000			1,800,000
Total Liabilities	<u>\$ 3,166,547</u>	<u>\$ 732,610</u>	<u>\$ 32,811</u>	<u>\$ 3,931,968</u>
Fund Balances				
Nonspendable	\$ 66,983	\$	\$ 22,492	\$ 89,475
Restricted		3,826,779	405,979	4,232,758
Committed				
Assigned				
Unassigned	817,498			817,498
Total Fund Balances	<u>884,481</u>	<u>3,826,779</u>	<u>428,471</u>	<u>5,139,731</u>
Total Liabilities and Fund Balances	<u>\$ 4,051,028</u>	<u>\$ 4,559,389</u>	<u>\$ 461,282</u>	<u>\$ 9,071,699</u>

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Governmental Funds

**Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Assets
June 30, 2011**

Total Fund Balances – Governmental Funds	\$ 5,139,731
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of capital assets	21,026,364
Accumulated depreciation	(7,359,203)
Revenue reported as deferred revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements	45,773
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable	(12,525,379)
Loans payable	(201,740)
Compensated balances	(113,526)
Accrued interest payable is not included as a liability in governmental funds	(24,364)
Net bond issuance costs are capitalized and amortized in the government-wide financial statements	188,917
Net deferred bond refunding, the difference between the acquisition price and the net carrying amount of the debt has been deferred and amortized in the government-wide financial statements	<u>(86,248)</u>
Net Assets of Governmental Activities	<u>\$ 6,090,325</u>

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Governmental Funds
Statements of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2011**

	General	Capital Projects	Other Nonmajor Governmental Funds	Totals
Revenues				
Local sources	\$1,728,566	\$ 44,877	\$ 980,982	\$ 2,754,425
State sources	9,797,179		45,593	9,842,772
Federal sources	1,159,759		606,373	1,766,132
Intergovernmental and other sources	88,047			88,047
Total Revenues	<u>12,773,551</u>	<u>44,877</u>	<u>1,632,948</u>	<u>14,451,376</u>
Expenditures				
Instruction	8,009,613			8,009,613
Support Services	4,062,617			4,062,617
Food service			919,375	919,375
Debt retirement:				
Principal	81,597		519,612	601,209
Interest and other	9,608		615,847	625,455
Capital outlay	10,940	2,940,278		2,951,218
Intergovernmental and other services	258,228	3,337		261,565
Total Expenditures	<u>12,432,603</u>	<u>2,943,615</u>	<u>2,054,834</u>	<u>17,431,052</u>
Excess of revenues over (under) expenditures	340,948	(2,898,738)	(421,886)	(2,979,676)
Other Financing Sources (Uses)				
Interest subsidy			320,905	320,905
Net Change in Fund Balances	340,948	(2,898,738)	(100,981)	(2,658,771)
Fund Balances - Beginning of year, as restated	543,533	6,725,517	529,452	7,798,502
Fund Balances - End of year	<u>\$ 884,481</u>	<u>\$3,826,779</u>	<u>\$ 428,471</u>	<u>\$ 5,139,731</u>

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011**

Net Change in Fund Balances – Total Governmental Funds	\$ (2,658,771)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(449,481)
Capital outlay	2,951,218
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds, as they are not considered “available” revenue and instead are counted as deferred revenue	9,604
Accrued interest is recorded in the statement of activities when incurred, it is not reported in governmental funds until paid	16,374
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	601,209
(Increases) decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds	21,969
Amortization of bond issuance costs and deferred refunding amounts are not recognized in the governmental funds. The effect of recording current years amortization is a net increase to net assets	<u>(6,382)</u>
Change in Net Assets of Governmental Activities	<u>\$ 485,740</u>

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Fiduciary Funds

**Statements of Fiduciary Net Assets
June 30, 2011**

	Private-Purpose Scholarship Trust Fund	Student Activities Agency Fund
Assets		
Cash and investments	\$ 689,256	\$ 138,588
Earnings receivable	2,465	
Due from other funds	_____	3,612
Total Assets	\$ 691,721	\$ 142,200
Liabilities		
Due to student groups	\$ _____	\$ 142,200
Due to other funds	3,612	_____
Total Liabilities	\$ 3,612	\$ 142,200
Net Assets		
Reserved for scholarships	\$ 688,109	

**Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2011**

	Private-Purpose Scholarship Trust Fund
Additions	
Endowment donations	\$ 12,023
Earnings on investments	14,333
Total Additions	26,356
Deductions	
Scholarships awarded	32,496
Changes in Net Assets	(6,140)
Net Assets – June 30, 2010	694,249
Net Assets – June 30, 2011	\$ 688,109

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Notes to Financial Statements June 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Public Schools of Calumet, Laurium & Keweenaw (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

Reporting Entity

The Public Schools of Calumet, Laurium & Keweenaw provide educational services to approximately 1,500 area students. The School District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Educational facilities include one high school, one middle school, one elementary school, and one alternative education school for certain high school students. The School District operates under 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 (GASB) for determining the various governmental organizations to be included in the reporting entity. The criteria established by GASB for determining which organization is a part of the reporting entity and which are legally separate component units includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The School District has no component units to report.

District-wide and Fund Financial Statements

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

The statement of net assets presents governmental activities on a consolidated basis. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or

privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide 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.

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

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

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

The financial activities of the School District are categorized into the following **major governmental funds**:

General Fund – This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from state and federal aid and property taxes.

Capital Projects Fund – This fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings,

equipment and remodeling. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the District reports the following fund types:

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

Debt Retirement Fund - This fund is used to record property taxes received and payment of principal and interest expenditures on bonded debt.

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

Student Activities Agency Fund - This fiduciary fund is used to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Private-Purpose Scholarship Trust Fund – This fiduciary fund is used to account for resources held in trust to provide scholarships to post-secondary education students. The resources in this fund cannot be used to support the School District's own programs. Contributions are held as permanent endowments and the earnings from those endowments can be used to provide the scholarships.

Budgets

Budgets are adopted by the School District's Board of Trustees for the general and special revenue funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the function level and control is exercised at the function level. All annual appropriations lapse at year end. State law requires the School District to have its budget in place by July 1 of each year. 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 follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and the means of financing them.

- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets are typically amended during the year, prior to year-end.

Cash, Cash Equivalents and Investments

Cash includes various interest bearing and non-interest bearing bank accounts as well as cash equivalents. The District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments include bank time deposits with a maturity date of over three months and marketable securities. As of June 30, 2011, there were no material gross unrealized gains or losses as the carrying value (cost) of investments approximated fair value.

Receivables and Payables

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

Revenues

The School District property tax is levied each July 1 on the taxable valuation of property located within the District as of the preceding January 1. Property taxes are payable without interest on or before September 14 and without penalty on or before February 14. Penalties are collected from February 14 to March 1 at which time property taxes become delinquent.

For the year ended June 30, 2011, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	17.6290
Commercial Personal Property	5.6290
Debt Retirement Fund:	
PRE, Non-PRE, Industrial and Commercial Personal Property	4.5000

The State of Michigan utilizes a foundation allowance approach to fund school districts, which provides for a specific annual amount of revenue per student, based on a state-wide formula. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State’s School Aid Fund

and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America. For the year ended June 30, 2011 the foundation allowance was based on pupil member membership counts taken in February and September of 2010.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred.

For categorical funds meeting this requirement, funds received which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories

Inventories are valued at lower of cost (first-in, first-out) or market. Inventory consists of supplies, materials and food commodities and are subsequently charged to expenditures when consumed. Inventories also include plant maintenance and operating supplies as well as instructional supplies.

Capital Assets

Capital assets, which include land, buildings, vehicles and furniture and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and certain other assets susceptible to theft. 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 lives, are not capitalized. The School District does not have any infrastructure-type assets.

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

Buildings and additions	10-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-25 years

Compensated Absences

The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual leave and sick leave balances. The liability has been calculated using the vesting method, where employees who are currently eligible to receive termination

payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

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 assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable- amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted- amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed- amounts that can be used only for specific purposes determined by a formal action of the Board of Education. The Board of Education is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

Assigned- amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the School District's adopted policy, only the Board of Education may assign amounts for specific purposes.

Unassigned- all other spendable amounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

(2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations in Budgeted Funds –Total expenditures did not exceed amounts appropriated in any of the District's budgeted funds.

Fund Deficits – The School District did not have any fund balance deficits.

Compliance Bond Proceeds- The Capital Projects Fund includes capital project activities funded with bonds issued on June 29, 2010. The following is a summary of the revenue and expenditures in the 2010 School Building and Site Capital Project Fund, from the inception of the funds through the current fiscal year end:

2010 Building and Site Bond Project

Revenues	\$ 6,974,971
Expenditures	3,148,192

For this capital project, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code to-date.

(3) CASH 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 an office in Michigan; 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 and 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 currently carries stock investments in its Private-Purpose Scholarship Trust Fund. These investments are considered exempt from Act 451 PA of 1976, as amended since the School District is following the donor's investment wishes.

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ 6,659,011	\$ 827,844	\$ 7,486,855

The breakdown between deposit and investment carrying amounts for the School District is as follows:

Cash on hand	\$ 500
Deposits (checking and savings accounts)	4,264,100
Investments in securities and certificate of deposit exceeding three months in maturity	<u>3,222,255</u>
Total	<u>\$ 7,486,855</u>

Custodial Credit Risk – Deposits - In the case of cash and certificates of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, \$3,210,958 of the District's bank balance of \$7,668,610 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

At June 30, 2011, the School District's investment balances were as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificate of deposit (greater than 3 months)	\$ 3,191,986	\$ 3,191,987
Common stock (donated)	<u>30,269</u>	<u>51,983</u>
TOTAL	<u>\$ 3,222,255</u>	<u>\$ 3,243,970</u>

Interest Rate Risk – The District minimizes its interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring its investments so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in money market checking and savings accounts and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations

(NRSROs). At June 30, 2011, the School District did not have investments in commercial paper or corporate bonds.

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

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to types of securities allowed by law and reviewing which institution the District will do business with.

Foreign Currency Risk – The District is not authorized to invest in investments with this type of risk.

(4) DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units total \$2,072,644 of which \$1,832,771 is from state aid, \$142,077 from federal aid, and \$97,796 from other governmental units.

(5) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The amount of interfund receivables, payables, and transfers are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 782	\$
Capital Projects Fund		782
Fiduciary funds:		
Scholarship Trust		3,612
Student Activities Agency	<u>3,612</u>	<u> </u>
Totals	<u>\$ 4,394</u>	<u>\$ 4,394</u>

There were no transfers between funds during the year.

(6) CAPITAL ASSETS

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

	Balance as adjusted <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	Balance <u>June 30, 2011</u>
Assets not being depreciated- land	\$ <u>216,341</u>	\$ _____	\$ _____	\$ <u>216,341</u>
Capital assets being depreciated:				
Building and improvements	15,852,346	2,940,278		18,792,624
Buses and other vehicles	1,009,084			1,009,084
Furniture and equipment	<u>997,375</u>	<u>10,940</u>		<u>1,008,315</u>
Subtotal	<u>17,858,805</u>	<u>2,951,218</u>		<u>20,810,023</u>
Accumulated depreciation:				
Building and improvements	5,222,645	377,701		5,600,346
Buses and other vehicles	906,800	44,052		950,852
Furniture and equipment	<u>780,277</u>	<u>27,728</u>		<u>808,005</u>
Subtotal	<u>6,909,722</u>	<u>449,481</u>		<u>7,359,203</u>
Net capital assets being depreciated	<u>10,949,083</u>	<u>2,501,737</u>		<u>13,450,820</u>
Net capital assets	<u>\$ 11,165,424</u>	<u>\$ 2,501,737</u>	<u>\$ _____</u>	<u>\$ 13,667,161</u>

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

Governmental activities:	
Instruction	\$ 26,784
Support services	61,546
Food services	5,203
Unallocated	<u>355,948</u>
Total governmental activities	<u>\$ 449,481</u>

(7) SHORT-TERM DEBT

The District borrows for its short-term cash flow needs pursuant to State law and anticipated State aid. Activity for the year ended June 30, 2011 is as follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/11</u>
Note payable – bank	<u>\$ 770,000</u>	<u>\$ 1,800,000</u>	<u>\$ 770,000</u>	<u>\$ 1,800,000</u>

(8) LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain vehicles and equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations where applicable, include loans and compensated absences.

Long-term obligation activity is summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
Governmental Activities					
Bonds	\$13,044,991	\$	\$ 519,612	\$ 12,525,379	\$ 540,069
Installment notes	283,337		81,597	201,740	84,819
Deferred bond refund	93,436		7,188	86,248	
Other obligations	<u>135,495</u>	<u> </u>	<u>21,969</u>	<u>113,526</u>	<u> </u>
Total governmental Activities	<u>\$13,557,259</u>	<u>\$</u>	<u>\$ 630,366</u>	<u>\$ 12,926,893</u>	<u>\$ 624,888</u>

Annual debt retirement requirements to maturity for the above governmental bond and installment note obligations are as follows:

	Bonds			Installment Note		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 540,069	\$ 670,317	\$ 1,210,386	\$ 84,819	\$ 6,386	\$ 91,205
2013	600,310	671,589	1,271,899	88,194	3,011	91,205
2014	550,000	635,585	1,185,585	28,727	256	28,983
2015	585,000	617,385	1,202,385			
2016	620,000	598,985	1,218,985			
2017-2021	3,815,000	2,729,525	6,544,525			
2022-2026	4,855,000	2,330,325	7,185,325			
2027	<u>960,000</u>	<u>446,985</u>	<u>1,406,985</u>			
	<u>\$12,525,379</u>	<u>\$8,700,696</u>	<u>\$21,226,075</u>	<u>\$ 201,740</u>	<u>\$ 9,653</u>	<u>\$ 211,393</u>

Governmental Activities

General obligation bonds consist of the following:

School Improvement Bonds, Series 1998 (Durant Resolution Package Bonds), issued for \$157,374, matures in 05/15/2013 with interest at 4.76%. These bonds issued by PA 142 are payable solely from and secured solely by an assignment by each School District of certain categorical State School Aid payments. The State has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.	\$ 65,379
2008 Refunding Bonds, issued for a portion of the 1999 School Building & Site Bonds and the 1998 Refunding Bonds for \$6,785,000, matures in 2024 with annual installments ranging from \$395,000 to \$460,000 and interest ranging from 3.75% to 4.0%.	5,615,000
2010 School Building & Site Bonds – designated as “Qualified School Construction Bonds” (QSCB) under Section 54F of the Internal Revenue Code of 1986, issued for erecting, furnishing and equipping additions to and remodeling, refurbishing and re-equipping school buildings and acquiring and installing education technology improvements for \$6,930,000, matures in 2027 with annual payments ranging from \$85,000 to \$960,000 with interest at 6.45%. Under IRS Section 54A the District has elected to receive a direct credit (interest rate subsidy) from the U.S. Dept. of Treasury for the payment of interest on the bonds.	6,845,000
Total bonded debt	<u>\$ 12,525,379</u>

Installment notes payable consist of the following:

Installment purchase note payable with Citizens Bank, issued for \$249,999 for the purpose of purchasing a bus and various equipment, matures in 2014 with interest at 4.0% and monthly payments of \$4,603.	\$ 127,014
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Installment purchase note payable with River Valley Bank, issued for \$133,520 for technology needs, matures in 2013 with interest at 3.7% and monthly payments of \$2,997.	74,726
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Total installment debt	<u>\$ 201,740</u>
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Other governmental activity long-term obligations include:

Employee-compensated absences	<u>\$ 113,526</u>
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(9) FUND BALANCE

Beginning fund balance was adjusted in the Food Services Fund for \$40.

As of June 30, 2011, fund balances are comprised of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Non-Spendable:					
Prepays	\$ 66,983	\$	\$	\$	\$ 66,983
Inventory		22,492			22,492
Restricted:					
Capital Projects			3,826,779		3,826,779
Debt Service				371,163	371,163
Food Services		34,816			34,816
Committed					
Assigned					
Unassigned	<u>817,498</u>	<u> </u>	<u> </u>	<u> </u>	<u>817,498</u>
Total Fund Balances	<u>\$ 884,481</u>	<u>\$ 57,308</u>	<u>\$ 3,826,779</u>	<u>\$ 371,163</u>	<u>\$ 5,139,731</u>

The Board of Education establishes fund balance commitments by the passage of resolutions. This is done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of funds. Assigned fund

balance is established by management through the amendment of the budget for specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

During the year, the Athletic Fund with a beginning fund balance totaling \$1,220 and the Community Services Fund with a balance totaling \$79,130 were consolidated for reporting purposes into the General Fund as part of the School District’s implementation of GASB 54. Under GASB 54, any special revenue funds that receive a General Fund transfer approximating 50% or more of total revenues should be reported in the General Fund. The reconciliation of fund balance to the prior year’s audited financial statements is as follows:

	<u>General Fund</u>	<u>Athletic</u>	<u>Community Services</u>	<u>Total</u>
Fund balance at 6/30/10	\$ 463,183	\$ 1,220	\$ 79,130	\$ 543,533

(10) EMPLOYEE RETIREMENT SYSTEM

Description of Plan

The School District is a participant in a cost-sharing public employee retirement system (PERS) which is a multiple-employer state-wide defined benefit public employee retirement plan with the Michigan Public School Employees’ Retirement System (MPERS), governed by the State of Michigan and operates within the Michigan Department of Management and Budget, Office of Retirement Services and covers substantially all employees of the School District. The MPERS was established to provide retirement, survivor and disability benefits and post retirement benefits for health, dental and vision to plan members and their beneficiaries. Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to the Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671, or calling 800-381-5111.

Funding Policy

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted.

MIP members enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For employees who first worked before July 1, 2010, the rate for the year ended June 30, 2011, was 16.94% for the first quarter, 19.41% for the month of October, and 20.66% for the remainder of the year. For employees who first worked on or after July 1, 2010, the rate for the year ended June 30, 2011 was 15.44% for the first quarter, 17.91% for the month of October, and 19.16% for the remainder of the year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District's contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were \$1,260,132, \$1,184,428, and \$1,145,333 respectively, and were equaled to the required contribution for those years.

Payroll paid employees covered by the System for the year ended June 30, 2011 was approximately \$6,385,000. The School District's total payroll was approximately \$6,750,000

Other Post-Employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from monthly pension amounts. 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 was 6.81% of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25% for the month of October 2010, and 8.5% for the period from November 1, 2010 through June 30, 2011. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

(11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for excessive claims with the overall maximum coverage varying, depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

The District is considered a reimbursing employer for claims paid by the Michigan Unemployment Insurance Agency (UIA) to its former workers who receive unemployment benefits. The UIA is paid dollar-for-dollar for benefits it pays, from General Fund resources. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Past claim amounts have not been material to the financial statements and the same is anticipated for future claims.

(12) ECONOMIC DEPENDENCY

The School District receives approximately 80% of its revenues from State and Federal sources.

(13) CONTINGENCIES

The School District receives Federal and State funds for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by those agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of management, such disallowances, if any, would not be material to the School District's financial statements.

(14) COMMITMENTS

The District has approximately \$3,000,000 committed on its \$ 6,930,000 capital project as of June 30, 2011.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011**

	Original Budget	Final Amended Budget	Actual
Revenues			
Local sources	\$ 1,742,261	\$ 1,691,564	\$ 1,728,566
State sources	9,331,531	9,802,130	9,797,179
Federal sources	1,353,267	1,159,247	1,159,759
Intergovernmental and other sources	91,481	88,087	88,047
Total Revenues	<u>12,518,540</u>	<u>12,741,028</u>	<u>12,773,551</u>
Expenditures			
Instruction:			
Basic programs	6,493,263	6,552,666	6,538,457
Added needs	1,610,760	1,474,429	1,471,156
Support services:			
Pupil	441,999	432,311	427,938
Instructional staff	108,574	102,255	100,702
General administration	238,096	221,886	219,162
School administration	964,596	972,122	967,230
Business services	179,710	205,064	202,859
Operations and maintenance	1,133,314	1,153,940	1,136,507
Transportation	554,778	578,265	570,057
Central support services	203,940	214,520	210,583
Other supporting services	217,943	231,995	227,579
Debt retirement costs	130,272	94,780	91,205
Capital outlay		10,940	10,940
Intergovernmental and other services	264,345	258,345	258,228
Total Expenditures	<u>12,541,590</u>	<u>12,503,518</u>	<u>12,432,603</u>
Excess (deficiency) of revenues over expenditures	(23,050)	237,510	340,948
Fund Balance - June 30, 2010	<u>543,533</u>	<u>543,533</u>	<u>543,533</u>
Fund Balance - June 30, 2011	<u><u>\$ 520,483</u></u>	<u><u>\$ 781,043</u></u>	<u><u>\$ 884,481</u></u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Combining Balance Sheets
Nonmajor Governmental Funds
June 30, 2011**

	<u>Special Revenue Funds</u>		
	<u>Food Services Fund</u>	<u>Debt Retirement Fund</u>	<u>Totals</u>
ASSETS			
Cash	\$ 36,226	\$ 313,726	\$ 349,952
Taxes receivable		74,644	74,644
Accounts receivable	14,194		14,194
Inventory	19,461		19,461
Prepays	<u>3,031</u>		<u>3,031</u>
 Total Assets	 <u>\$ 72,912</u>	 <u>\$ 388,370</u>	 <u>\$ 461,282</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 8,202	\$	\$ 8,202
Accrued expenses	7,402		7,402
Deferred revenue		17,207	17,207
 Total Liabilities	 <u>15,604</u>	 <u>17,207</u>	 <u>32,811</u>
 Fund Balances			
Nonspendable	22,492		22,492
Restricted	34,816	371,163	405,979
Committed			
Assigned			
Unassigned			
 Total Fund Balances	 <u>57,308</u>	 <u>371,163</u>	 <u>428,471</u>
 Total Liabilities and Fund Balance	 <u>\$ 72,912</u>	 <u>\$ 388,370</u>	 <u>\$ 461,282</u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Combining Statements of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2011**

	<u>Special Revenue Funds</u>		
	<u>Food Services Fund</u>	<u>Debt Retirement Fund</u>	<u>Totals</u>
Revenues			
Local sources	\$ 188,828	\$ 792,154	\$ 980,982
State sources	34,542	11,051	45,593
Federal sources	<u>606,373</u>		<u>606,373</u>
 Total Revenues	 <u>829,743</u>	 <u>803,205</u>	 <u>1,632,948</u>
 Expenditures			
Food services	919,375		919,375
Debt retirement:			
Principal		519,612	519,612
Interest and other		<u>615,847</u>	<u>615,847</u>
 Total Expenditures	 <u>919,375</u>	 <u>1,135,459</u>	 <u>2,054,834</u>
 Excess of revenues over (under) Expenditures	 (89,632)	 (332,254)	 (421,886)
 Other Financing Sources (Uses)			
Interest Subsidy		<u>320,905</u>	<u>320,905</u>
 Net Change in Fund Balances	 (89,632)	 (11,349)	 (100,981)
 Fund Balances - June 30, 2010, as restated	 <u>146,940</u>	 <u>382,512</u>	 <u>529,452</u>
 Fund Balances - June 30, 2011	 <u><u>\$ 57,308</u></u>	 <u><u>\$ 371,163</u></u>	 <u><u>\$ 428,471</u></u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Student Activities Agency Fund
Statement of Additions and Deductions of Individual School Activity Groups**

Year Ended June 30, 2011

<u>Organization</u>	Balance Due To (From) Activity Groups June 30, 2010	Additions & Trsfers	Deductions & Transfers	Balance Due To (From) Activity Groups June 30, 2011
Athletics	\$ 1,356	\$ 12,078	\$ 10,491	\$ 2,943
Band	736	770	783	723
Business Professionals	2,055	-	2,055	-
Charitbale Donations	-	-	-	-
Cheerleader	402	4,687	4,984	105
Class of Freshman	-	-	25	(25)
Class of Sophomores	(50)	50	25	(25)
Class of Juniors	1,704	13,323	13,962	1,065
Class of Seniors	82	16,297	13,515	2,864
Senior Class All-Nighter	-	2,634	2,660	(26)
Class Memorial Fund	13,273	83	300	13,056
CRASH Committee	1,066	-	-	1,066
Drama Club	213	1,991	1,005	1,199
Faculty Flower Fund	74	-	-	74
Forensics	51	1,781	1,831	1
Future Health Careers	260	-	-	260
Future Teachers	996	-	-	996
German Club	30	-	-	30
Great Lakes Hockey Conference	1,437	600	347	1,690
H.S. Bowl	165	-	-	165
H.S. General	1,231	3,709	447	4,493
Hockey	5,679	11,854	12,332	5,201
JV Hockey	-	10,163	8,575	1,588
Horizons	1,522	2,512	2,700	1,334
Interest	12,404	830	195	13,039
Language Village Trip	167	5,209	5,126	250
National Honor Society	1,095	4,101	4,467	729
Pep Club	664	822	935	551
ROTC	1,759	11,214	10,483	2,490
SADD Chapter	725	-	-	725
Scholarship Accounts	4,617	56,567	49,547	11,637
Science Olympiad	-	-	-	-
Spanish Club	344	-	49	295
Student Leadership	58	-	-	58
Student of the Month	(20)	-	-	(20)
Student Senate	324	1,021	937	408
Teens Who Care	504	801	922	383
Transcripts	1,963	99	-	2,062
Yearbook	4,191	15,365	15,827	3,729
CLK Elementary	51,448	15,748	16,661	50,535
Washington Middle School	16,553	31,603	31,604	16,552
Totals	\$ 129,078	\$ 225,912	\$ 212,790	\$ 142,200

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Schedule of Expenditures of Federal Awards

For fiscal year ended June 30, 2011

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2010	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2011
U.S. Department of Education:							
Passed Thru MI Dept. Ed.							
**Title I, Part A Cluster							
Title I, Part A of ESEA	84.010						
111530-1011		\$ 510,722	\$	\$	\$ 285,462	\$ 365,284	\$ 79,822
101530-0910		<u>424,657</u>	<u>382,211</u>	<u>85,526</u>	<u>85,526</u>		
Subtotal		<u>935,379</u>	<u>382,211</u>	<u>85,526</u>	<u>370,988</u>	<u>365,284</u>	<u>79,822</u>
American Recovery & Reinvestment Act (ARRA)							
Title I, Part A	84.389						
101535-0910		223,942	103,414	19,118	19,118		
111535-1011		<u>120,528</u>			<u>94,926</u>	<u>120,528</u>	<u>25,602</u>
Subtotal		<u>344,470</u>	<u>103,414</u>	<u>19,118</u>	<u>114,044</u>	<u>120,528</u>	<u>25,602</u>
Total Title I, Part A Cluster		<u>1,279,849</u>	<u>485,625</u>	<u>104,644</u>	<u>485,032</u>	<u>485,812</u>	<u>105,424</u>
Even Start							
Family Literacy Grants	84.213						
110390-B1113CES		<u>225,000</u>			<u>225,000</u>	<u>225,000</u>	
Title VI Part B Subpart 2							
110660-1011	84.358B	57,391			43,514	55,936	12,422
100660-0910		<u>38,800</u>	<u>18,340</u>	<u>2,963</u>	<u>2,963</u>		
Subtotal		<u>96,191</u>	<u>18,340</u>	<u>2,963</u>	<u>46,477</u>	<u>55,936</u>	<u>12,422</u>
Title II, Part A							
Teacher/Principal Training	84.367						
110520-1011		126,478			69,035	88,440	19,405
100520-0910		<u>113,019</u>	<u>101,982</u>	<u>37,187</u>	<u>37,187</u>		
Subtotal		<u>239,497</u>	<u>101,982</u>	<u>37,187</u>	<u>106,222</u>	<u>88,440</u>	<u>19,405</u>
**American Recovery & Reinvestment Act (ARRA)							
Ed. Stabilization Funds	84.394						
112525-1011		<u>178,294</u>			<u>178,294</u>	<u>178,294</u>	
Total Passed Thru MI Dept. Ed.		2,018,831	605,947	144,794	1,041,025	1,033,482	137,251
Passed Thru ISD							
American Recovery & Reinvestment Act (ARRA)							
Special Ed. Idea Part B	84.391						
100455-0910		<u>128,050</u>	<u>64,025</u>		<u>64,025</u>	<u>64,025</u>	
Total U.S. Department of Education		<u>2,146,881</u>	<u>669,972</u>	<u>144,794</u>	<u>1,105,050</u>	<u>1,097,507</u>	<u>137,251</u>
Corporation for Nat'l & Community Service							
Passed Thru MI Dept of Human Services							
Learn & Serve	94.004						
MSBF-11-31239		<u>6,000</u>			<u>4,832</u>	<u>4,832</u>	
U.S. Department of Defense:							
Direct Program:							
U.S. Army JROTC-M1021135	N/A	<u>112,965</u>	<u>55,545</u>	<u>4,744</u>	<u>57,338</u>	<u>57,420</u>	<u>4,826</u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Schedule of Expenditures of Federal Awards (Continued)

For fiscal year ended June 30, 2011

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2010	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2011
U.S. Department of Agriculture Passed Through MI Dept Ed: <u>Child Nutrition Cluster</u>							
Non-cash Assistance							
Nat'l Sch.. Lunch:	10.555						
Entitlement Commodities		\$ 54,279	\$	\$	\$ 54,279	\$ 54,279	\$
Bonus Commodities		<u>1,444</u>	<u></u>	<u></u>	<u>1,444</u>	<u>1,444</u>	<u></u>
Subtotal		<u>55,723</u>	<u></u>	<u></u>	<u>55,723</u>	<u>55,723</u>	<u></u>
Cash Assistance							
Nat'l Sch. Lunch	10.555						
111950-Sec. 4 All Lunches		51,757			51,757	51,757	
101950-Sec.4 All Lunches		56,955	50,956		5,999	5,999	
111960-Sec.11 Free & Reduced		291,821			291,821	291,821	
101960-Sec. 11 Free & Reduced		329,769	294,190		35,579	35,579	
111980-Lunch Snacks		12,012			12,012	12,012	
101980-Lunch Snacks		<u>12,722</u>	<u>11,956</u>	<u></u>	<u>766</u>	<u>766</u>	<u></u>
Subtotal		<u>755,036</u>	<u>357,102</u>	<u></u>	<u>397,934</u>	<u>397,934</u>	<u></u>
School Breakfast Program	10.553						
111970-Breakfast		136,061			136,061	136,061	
101970-Breakfast		<u>160,553</u>	<u>143,898</u>	<u></u>	<u>16,655</u>	<u>16,655</u>	<u></u>
Subtotal		<u>296,614</u>	<u>143,898</u>	<u></u>	<u>152,716</u>	<u>152,716</u>	<u></u>
Total Child Nutrition Cluster		<u>1,107,373</u>	<u>501,000</u>	<u></u>	<u>606,373</u>	<u>606,373</u>	<u></u>
Total Federal Financial Assistance		<u>\$ 3,373,219</u>	<u>\$ 1,226,517</u>	<u>\$ 149,538</u>	<u>\$ 1,773,593</u>	<u>\$ 1,766,132</u>	<u>\$ 142,077</u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Schedule of Expenditures of Federal Awards (Continued)

For fiscal year ended June 30, 2011

Notes to Schedule of Expenditures of Federal Awards:

****Designates Major Programs**

(A) BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on a modified accrual basis of accounting.

(B) SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

Current Payments per Grantor Auditor Report: \$ 1,591,675

Plus: Payments not on Grantor Auditor Report:

Direct Programs- JROTC	\$ 57,338	
Passed Through MI Dept Human Services	4,832	
Passed Through CCISD	64,025	
Food distribution commodities	<u>55,723</u>	<u>181,918</u>

Less receivables at the beginning of the year (149,538)

Plus receivables at the end of the year 142,077

Total Federal Awards Expenditures Reported In the Schedule of Federal Awards \$ 1,766,132

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue is as follows:

Total Federal Revenue Sources Reported in the Financial Statements \$ 1,766,132

Total Federal Awards Expenditures Reported In the Schedule of Federal Awards \$ 1,766,132

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Schedule of Expenditures of Federal Awards
 Provided to Subrecipients
 For fiscal year ended June 30, 2011**

<u>Federal Grantor</u> Pass Through Grantor <u>Program Title Grant Number</u>	<u>Federal</u> CFDA <u>Number</u>	<u>Approved</u> Grant Award <u>Amount</u>	<u>(Memo Only)</u> Prior Year <u>Expenditures</u>	<u>Accrued</u> (Deferred) Revenue <u>June 30, 2010</u>	<u>Current Year</u> Receipts <u>(Cash Basis)</u>	<u>Current</u> Year <u>Expenditures</u>	<u>Accrued</u> (Deferred) Revenue <u>June 30, 2011</u>
U.S. DEPARTMENT OF EDUCATION							
Even Start	84.213						
Passed through to BHK Child Dev. Bd., Inc							
110390-B1113CES		<u>\$ 225,000</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 225,000</u>	<u>\$ 225,000</u>	<u>\$ _____</u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Education
Public Schools of Calumet, Laurium & Keweenaw
Calumet, Michigan

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of Calumet, Laurium & Keweenaw, as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued my report thereon dated November 11, 2011. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Public Schools of Calumet, Laurium & Keweenaw's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Public Schools of Calumet, Laurium & Keweenaw's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Public Schools of Calumet, Laurium & Keweenaw's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I have reported to management of the Public Schools of Calumet, Laurium & Keweenaw in a separate letter dated November 11, 2011.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Paul R. Sturos

Paul R. Sturos, CPA
Calumet, Michigan
November 11, 2011

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Education
Public Schools of Calumet, Laurium & Keweenaw
Calumet, Michigan

Compliance

I have audited the Public Schools of Calumet, Laurium & Keweenaw's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Public Schools of Calumet, Laurium & Keweenaw's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Public Schools of Calumet, Laurium & Keweenaw's management. My responsibility is to express an opinion on the Public Schools of Calumet, Laurium & Keweenaw's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Public Schools of Calumet, Laurium & Keweenaw's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Public Schools of Calumet, Laurium & Keweenaw's compliance with those requirements.

In my opinion, the Public Schools of Calumet, Laurium & Keweenaw complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Public Schools of Calumet, Laurium & Keweenaw is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Public Schools of Calumet, Laurium & Keweenaw's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Public Schools of Calumet, Laurium & Keweenaw's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

The Public Schools of Calumet, Laurium & Keweenaw's response to the findings identified in my audit, if applicable, are described in the accompanying schedule of findings and questioned costs. I did not audit the Public Schools of Calumet, Laurium & Keweenaw's response, where applicable, and, accordingly, I express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Paul R. Sturos

Paul R. Sturos, CPA
Calumet, Michigan
November 11, 2011

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011**

There are no prior audit findings to report.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

A. SUMMARY OF AUDITOR'S RESULTS

- 1) The auditor's report expresses unqualified opinions on the financial statements of the Public Schools of Calumet, Laurium & Keweenaw.
- 2) No deficiencies in internal control or instances of noncompliance material to the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- 3) No deficiencies in internal control relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- 4) The auditor's report on compliance for major programs expresses an unqualified opinion.
- 5) The auditor's report disclosed no instances of findings relative to the major federal award programs required to be reported under OMB Circular A-133.
- 6) Programs tested as major programs include:

<u>Program</u>	<u>CFDA#</u>
Title I Cluster	84.010 & 84.389
ARRA Stabilization	84.394

- 7) The threshold for distinguishing Type A and B programs was \$300,000.
- 8) The Public Schools of Calumet, Laurium & Keweenaw qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

PAUL R. STUROS

Certified Public Accountant

56901 S. Sixth Street, Suite 8
Calumet, MI 49913

Tel. (906) 337-4727 ~ Fax (906) 337-4725

E-mail: psturos@sbcglobal.net

Report to Management Letter

Board of Education and Administrators
Public Schools of Calumet, Laurium & Keweenaw
Calumet, Michigan

In planning and performing my audit of the financial statements of the Public Schools of Calumet, Laurium & Keweenaw, as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Other Matters

Activity for the Private-Purpose Scholarship Trust Fund is being accounted for by multiple employees within the District. As part of strengthening controls over this activity, I recommend that a general ledger be established for this fund and appropriately monitored by the District's accounting personnel.

This communication is intended solely for the information and use of the Board membership, management and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Paul R. Sturos

Paul R. Sturos, CPA
Calumet, Michigan
November 11, 2011

PAUL R. STUROS
Certified Public Accountant
56901 S. Sixth Street, Suite 8
Calumet, MI 49913

Tel. (906) 337-4727 ~ Fax (906) 337-4725
E-mail: psturos@sbcglobal.net

Communication with Those Charged with Governance

Board of Education
Public Schools of Calumet, Laurium & Keweenaw
Calumet, Michigan

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of Calumet, Laurium & Keweenaw for the year ended June 30, 2011. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my engagement letter to you dated June 27, 2011. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Public Schools of Calumet, Laurium & Keweenaw are described in Note (1) to the financial statements. As described in the notes to the financial statements, the District changed accounting policies related to governmental funds fund balance designations by adopting Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. I noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the governmental activities, each major fund, and the aggregate remaining fund information's financial statements were:

Management's estimates of the useful lives of capital assets which is based on previous history. Management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits. I evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The Financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

I have requested certain representations from management that are included in the management representation letter dated November 11, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. These discussions typically occur in the normal course of our professional relationship and our responses were not a condition to my retention.

This information is intended solely for the use of the Board of Education and management of the Public Schools of Calumet, Laurium & Keweenaw and is not intended to be and should not be used by anyone other than these specified parties.

Paul R. Sturos

Paul R. Sturos, CPA
Calumet, Michigan
November 11, 2011