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

FINANCIAL REPORT

Year Ended June 30, 2016

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Independent Auditor’s Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Public Schools of Calumet, Laurium & Keweenaw, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Public Schools of Calumet, Laurium & Keweenaw’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Schools of Calumet, Laurium & Keweenaw's basic financial statements. The other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Statement of Additions and Deductions of Individual School Activity Groups and the 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Additions and Deductions of Individual School Activity Groups and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of the Public Schools of Calumet, Laurium & Keweenaw's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Schools of Calumet, Laurium & Keweenaw's internal control over financial reporting and compliance.

Paul R. Sturos

Paul R. Sturos
Certified Public Accountant
October 31, 2016

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Management Discussion and Analysis
For the Year Ended June 30, 2016

The discussion and analysis of the Public Schools of Calumet, Laurium & Keweenaw financial performance provides an overview of the District's financial activities for the year ended June 30, 2016. 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 position 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 position 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 position and how they have changed. Net position, the difference between assets/deferred outflows and liabilities/deferred inflows, as reported in the statement of net position, is one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as 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 position 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 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. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is shown in the provided reconciliations.

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 and a Private Purpose Scholarship Trust Fund. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. These activities are excluded 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 the Private Purpose Scholarship Trust Fund that is entrusted to the District to provide cash grants for their respective purposes. Only the income portion of these trusts are typically 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 position as of June 30, 2016 and 2015.

TABLE I

	Governmental Activities (in millions)	
	2016	2015
Assets		
Current assets	\$ 4.4	\$ 3.8
Capital assets – net of accumulated depreciation	13.6	14.4
Total assets	18.0	18.2
Deferred Outflows of Resources	1.5	1.7
Liabilities		
Current liabilities	4.0	3.6
Long-term liabilities	27.3	26.4
Total liabilities	31.3	30.0
Deferred Inflow of Resources	0.2	1.9
Net Position		
Invested in capital assets - net of related debt	4.0	4.0
Restricted	0.5	0.4
Unrestricted (deficit)	(16.5)	(16.4)
Total net position	\$ (12.0)	\$ (12.0)

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

Net Position

The above analysis (Table I) focuses on the net position. The change in net position (Table II) of the School District's governmental activities is discussed below. The School District's net position was a deficit of \$12.0 million at June 30, 2016. Net investments in capital assets compares the original cost of property and equipment, less depreciation to long-term debt on the assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Also included in long term debt is a net pension liability of \$18.2 million and \$16.5 million for 2016 and 2015 respectively. The net pension liability is based the School District's proportion of the cost-sharing, state-wide defined benefit pension plan administered by the State of Michigan. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net positions for day-to-day operations. The remaining net position deficit of \$16.5 million is 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 (Table II), which shows the comparative changes in net position for fiscal year 2016 and 2015.

<u>TABLE II</u>	<u>Governmental Activities</u>	
	(in millions)	
Revenue	<u>2016</u>	<u>2015</u>
Program revenue:		
Charges for services	\$ 0.6	\$ 0.5
Grants and contributions	3.0	2.6
General revenue:		
Property taxes	2.7	2.6
State aid	9.2	9.7
Total Revenue	<u>15.5</u>	<u>15.4</u>
Functions/Programs Expenses		
Instruction	9.1	9.1
Support Services	4.2	4.3
Athletics	0.3	0.3
Food service	0.7	0.7
Interest on long-term debt	0.6	0.6
Depreciation (unallocated)	0.6	0.6
Total expenses	<u>15.5</u>	<u>15.6</u>
Increase (Decrease) in Net Position	<u>\$ -</u>	<u>\$ (0.2)</u>

The cost of all governmental activities this year was \$15.5 million. Certain activities were partially funded from those who benefited from the programs (\$0.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3.0 million). The School District paid for the remaining "public benefit" portion of governmental activities with \$2.7 million in property taxes, \$9.2 million in unrestricted State Aid and with other revenues, such as interest.

The School District's net position remained unchanged from the prior year. The change in net position differs from the change in fund balance, with the reconciliation appearing in the following financial statements.

The net cost of \$11.9 million as seen on the Statement of Activities shows the financial burden that was placed on the State and the School District's taxpayers by the functions of the School. 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.

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 increase (decrease) in total fund balances of each of the District's governmental funds from 2015 to 2016:

	2016	2015	Increase (Decrease)
Major Funds			
General Fund	\$ 667,338	\$ 408,940	\$ 258,398
Debt Service	463,098	429,991	33,107
Nonmajor Fund			
Food Services	9,527	11,373	(1,846)
 Total Governmental Funds	<u>\$ 1,139,963</u>	<u>\$ 850,304</u>	<u>\$ 289,659</u>

In 2016, the General Fund balance improved due to higher State Aid revenue resulting from an increase in student membership count. Gains were partially offset by the elimination of state categorical performance funding, and increase in instruction costs. The Debt Service Fund maintained a positive fund balance. The Food Service Fund balance, adjusted at the beginning of the year for 2015 indirect cost allocation corrections, declined slightly due to increased food expenses.

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, 2016, the original budget was adopted on June 24, 2015. Since the original budget is adopted two months before school is in session, there are many unknowns such as the number of students that will be enrolled 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. There are also 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, 2016 are noted below:

General Fund

Changes from Original Budget to Final Budget

The General Fund confronted minor revenue and expenditure differences between the original budget, final budget, and actual balances for the current fiscal year. The revenue variances were primarily from increased State Aid Funding on student membership, higher

local revenue, and a rise in UAAL Retirement funding. The revenue also increased for additional State-At-Risk funds but decreased due to loss of other state categorical performance revenue. The expenditure variances were mainly from increases in instruction contract services, school administrative costs, and other maintenance operation expenses.

A schedule showing the School District's original and final budget amounts vs. the amounts actually paid and received is included in the required supplemental information section of this financial report.

VI. Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the School District had \$23.9 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount approximates the same as last year.

	<u>2016</u>	<u>2015</u>
Land	\$ 216,341	\$ 216,341
Buildings and improvements	20,892,235	20,892,235
Buses and other vehicles	254,961	256,302
Furniture and equipment	<u>2,562,688</u>	<u>2,562,688</u>
Total Capital Assets	23,926,225	23,927,566
Less accumulated depreciation	<u>10,263,729</u>	<u>9,508,826</u>
Net Capital Assets	<u>\$ 13,662,496</u>	<u>\$ 14,418,740</u>

This year's addition of \$6,675 is for a minivan purchased due to the disposal of a minivan totaled in an accident.

Debt

At the end of this year, the School District had \$9.6 million in total bonds outstanding compared to \$10.3 million in the previous year. Bonds outstanding include the following:

	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 9,630,000	\$ 10,250,000

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 \$76,524 and employee-compensated absences totaling \$144,460.

VII. Known Facts, Decisions, or Conditions Having Significant Effect 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 provides a foundation allowance amount per student for the Public Schools of Calumet, Laurium & Keweenaw of \$7,511 for the 2016-2017 school year. 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).

VIII. Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department at Public Schools of Calumet, Laurium & Keweenaw, 57070 Mine Street, Calumet, Michigan 49913.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Current Assets	
Cash and investments	\$ 1,938,276
Receivables:	
Taxes receivable	58,972
Accounts receivable	42,005
Due from other governmental units	2,277,635
Inventory	50,365
Other current assets	11,461
	4,378,714
Noncurrent Assets - Capital assets net of depreciation of \$10,263,729	13,662,496
Total Assets	18,041,210
DEFERRED OUTFLOWS OF RESOURCES- Related to pensions	1,453,116
LIABILITIES	
Current Liabilities	
Accounts payable	79,494
Accrued expenses	1,129,840
Due to other governmental units	418,284
Unearned revenue	4,035
Note payable	1,600,000
Current portion of bonded debt obligations	665,000
Current portion of other long-term obligations	61,317
	3,957,970
Noncurrent Liabilities	
Bonds payable, due in more than one year	8,965,000
Other obligations, due in more than one year	159,667
Net pension liability	18,220,269
	27,344,936
Total Liabilities	31,302,906
DEFERRED INFLOWS OF RESOURCES	
Deferred benefit on refunding	50,308
Related to pensions	157,928
	208,236
NET POSITION	
Investment in capital assets, net of related debt	3,955,972
Restricted for hockey program	10,571
Restricted for debt retirement	469,655
Unrestricted (deficit)	(16,453,014)
Total Net Position	\$ (12,016,816)

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Governmental
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Activities
					Net (Expense) Revenue & Changes in Net Position
<u>Primary government</u>					
Governmental activities:					
Instruction	\$ 9,102,286	\$ 78,718	\$ 2,017,426	\$ -	\$ (7,006,142)
Support services	4,234,839	166,172	65,544		(4,003,123)
Athletics	293,958	67,630	33,317		(193,011)
Food services	740,712	241,249	554,702		55,239
Interest on long-term debt	592,711		356,524		(236,187)
Depreciation (unallocated)	575,861				(575,861)
Total governmental activities	\$15,540,367	\$ 553,769	\$ 3,027,513	\$ -	\$ (11,959,085)
General revenues:					
Taxes:					
					1,785,642
					899,198
					9,244,658
					4,521
					(308)
					<u>11,933,711</u>
					(25,374)
					<u>(11,991,442)</u>
					<u>\$ (12,016,816)</u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Governmental Funds
Balance Sheet
June 30, 2016

ASSETS	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Fund - Food Services Fund</u>	<u>Totals</u>
Cash and investments	\$ 1,467,674	\$443,006	\$ 27,596	\$1,938,276
Receivables:				
Taxes	23,337	35,635		58,972
Accounts receivable	22,767		19,238	42,005
Due from other governmental units	2,270,615		7,020	2,277,635
Due from other funds	52,229			52,229
Inventory	39,713		10,652	50,365
Prepays	11,461			11,461
Total Assets	<u>\$ 3,887,796</u>	<u>\$478,641</u>	<u>\$ 64,506</u>	<u>\$4,430,943</u>
 LIABILITIES				
Accounts payable	\$ 77,781	\$ -	\$ 1,713	\$ 79,494
Accrued expenditures	1,101,661		342	1,102,003
Due to other government units	418,284			418,284
Due to other funds	5,123	838	46,268	52,229
Unearned revenue	4,035			4,035
Note Payable	1,600,000			1,600,000
Total Liabilities	<u>3,206,884</u>	<u>838</u>	<u>48,323</u>	<u>3,256,045</u>
 DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	13,574	14,705	6,656	34,935
 FUND BALANCES				
Nonspendable	51,174		10,652	61,826
Restricted	10,571	463,098		473,669
Unassigned	605,593		(1,125)	604,468
Total Fund Balances	<u>667,338</u>	<u>463,098</u>	<u>9,527</u>	<u>1,139,963</u>
Total Liabilities, Deferred Inflows of Resources & Fund Balance	<u>\$ 3,887,796</u>	<u>\$478,641</u>	<u>\$ 64,506</u>	<u>\$4,430,943</u>

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total Fund Balances – Governmental Funds		\$ 1,139,963
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	\$ 23,926,225	
Accumulated depreciation	<u>(10,263,729)</u>	13,662,496
Deferred outflows of resources related to pensions		1,453,116
Certain receivables are offset by unavailable revenue in the governmental funds and are expected to be collected after 60 days from year end		34,935
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable	(9,630,000)	
Installment obligations	(76,524)	
Compensated absences	(144,460)	
Net pension liability	<u>(18,220,269)</u>	(28,071,253)
Deferred inflows of resources related to pensions		(157,928)
Accrued interest payable is not included as a liability in governmental funds		(27,837)
For debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt resulting in a gain is amortized in the government-wide financial statements		<u>(50,308)</u>
Net Position of Governmental Activities		<u><u>\$ (12,016,816)</u></u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
June 30, 2016

	General Fund	Debt Service Fund	Other Nonmajor Governmental Fund - Food Services Fund	Totals
Revenues				
Local sources	\$ 2,151,245	\$ 897,368	\$ 243,698	\$3,292,311
State sources	11,337,496		33,787	11,371,283
Federal Sources	527,071		517,211	1,044,282
Intergov't'l and other sources	151,043			151,043
Total Revenues	14,166,855	897,368	794,696	15,858,919
Expenditures				
Instruction	9,258,785			9,258,785
Support Services	4,304,146			4,304,146
Athletics	280,820			280,820
Food services			740,604	740,604
Debt service:				
Principal	59,838	620,000		679,838
Interest and other	3,088	600,785		603,873
Capital outlay	6,675			6,675
Intergovernmental and other services	55,243			55,243
Total Expenditures	13,968,595	1,220,785	740,604	15,929,984
Excess (deficiency) of revenues over expenditures	198,260	(323,417)	54,092	(71,065)
Other Financing Sources (Uses)				
Transfers in/(out)	55,938		(55,938)	
Sales proceeds	4,200			4,200
Interest subsidy		356,524		356,524
Total Other Financing Sources (Uses)	60,138	356,524	(55,938)	360,724
Net Change in Fund Balances	258,398	33,107	(1,846)	289,659
Fund Balances - Beginning of year, as adjusted	408,940	429,991	11,373	850,304
Fund Balances - End of year	\$ 667,338	\$ 463,098	\$ 9,527	\$1,139,963

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2016

Net Change in Fund Balances – Total Governmental Funds \$ 289,659

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 annual depreciation:

Capital outlay	\$ 6,675	
Depreciation expense	(758,410)	(751,735)

In the statement of activities, the gain/loss on the sale of capital assets is recognized. The fund financial statements recognize only the proceeds from these assets:

Loss on disposition of assets	(308)	
Proceeds from sale of assets	(4,200)	(4,508)

Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds. (5,519)

Accrued interest is recorded in the statement of activities when incurred, it is not reported in governmental funds until paid 3,974

Change in pension expense related to deferred items 297,823

Repayment of debt principal is an expenditure in the governmental funds, but is not in the statement of activities (where it reduces long-term debt) 679,838

(Increases) decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds 1,486

Debt refunding amortization not recognized in the governmental funds 7,188

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:

State aid funding for pension	(543,580)	
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Change in Net Position of Governmental Activities \$ (25,374)

See Notes to Financial Statements.

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Fiduciary Funds

Statement of Fiduciary Net Position
June 30, 2016

	Private-Purpose Scholarship Trust Fund	Student Activities Agency Fund
Assets		
Cash and investments	\$ 1,166,239	\$ 166,870
Earnings receivable	1,422	
Due from other funds		8,081
Total Assets	\$ 1,167,661	\$ 174,951
Liabilities		
Due to student groups	\$ -	\$ 174,951
Due to other funds	8,081	
Total Liabilities	\$ 8,081	\$ 174,951
Net Position		
Reserved for scholarships	\$ 1,159,580	

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

	Private-Purpose Scholarship Trust Fund
Additions	
Endowment donations	\$ 39,935
Earnings on investments	3,356
Total Additions	43,291
Deductions	
Scholarships awarded	29,225
Service charges	6
Total Deductions	29,231
Changes in Net Position	14,060
Net Position – June 30, 2015	1,145,520
Net Position – June 30, 2016	\$ 1,159,580

See Notes to Financial Statement

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Notes to Financial Statements
June 30, 2016

(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 significant accounting policies are discussed in the subsequent subsections of this note.

Reporting Entity

The Public Schools of Calumet, Laurium & Keweenaw provide educational services to approximately 1,570 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 position and the statement of activities) report information on all of the nonfiduciary activities of the School District. 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 position presents governmental activities on a consolidated basis. The School District's net position is reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net position, and (3) unrestricted net position. 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 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 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.

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

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.

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 School district currently does not have a capital projects fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in 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 are typically used to provide scholarships to students.

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. Unrealized gains or losses and carrying value (cost) amounts are disclosed in Note 3.

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, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
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, 2016 the foundation allowance was based on pupil member membership counts taken in February 2015 and October 2015.

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 unearned 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. Supplies can 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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position can report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category related to the pension plan.

In addition to liabilities, the statement of net position can report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District reports the difference between the reacquisition price and the net carrying amount of the old debt related to debt refunding as a deferred inflow (gain) and is amortized as a component of interest expense over the shorter of the remaining life of the old or new debt and amounts related to the pension plan.

In addition, unavailable property tax revenue collected subsequent to sixty days after the current year end is reported in this category for governmental funds.

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 position.

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

Fund Balance

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.

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.

Pensions

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

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 – Excess expenditures over appropriations in the District's General Fund include Instruction – Basic programs \$37,975, Support Service – Instruction staff \$341, Debt retirement \$1,104.

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

(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 various 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	\$ <u>1,938,276</u>	\$ <u>1,333,109</u>	\$ <u>3,271,385</u>

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

Cash on hand	\$ 500
Deposits (checking and savings accounts)	2,125,426
Investments	<u>1,145,459</u>
Total	<u>\$ 3,271,385</u>

Custodial Credit Risk – Deposits - In the case of bank deposits, there is a risk that in the event of a bank failure, the District’s deposits may not be returned. As of June 30, 2016, \$750,000 of the District’s “bank” cash and investments were insured and \$2,671,224 were exposed to custodial credit risk because they were uninsured and uncollateralized.

Investments

At June 30, 2016, the School District’s investment balances were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of deposit and cash mutual funds	\$ 777,222	\$ 777,222
Fixed income mutual funds	44,588	44,676
Stocks and equity mutual funds	<u>323,649</u>	<u>415,097</u>
TOTAL	<u>\$1,145,459</u>	<u>\$1,236,995</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, 2016, the School District did not have statutory required 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 statutorily required 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 \$2,277,635 of which \$2,070,027 is from state aid, \$108,610 from federal aid, and \$98,998 from other governmental units.

(5) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General	\$ 52,229	\$ 5,123
Debt Service		838
Food Service		46,268
	<u>\$ 52,229</u>	<u>\$ 52,229</u>
Fiduciary Funds:		
Scholarship Trust	\$ -	\$ 8,081
Student Activities Agency	8,081	
	<u>\$ 8,081</u>	<u>\$ 8,081</u>
Totals	<u>\$ 8,081</u>	<u>\$ 8,081</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General	\$ 55,938	\$ -
Food Service		55,938
	<u>\$ 55,938</u>	<u>\$ 55,938</u>

(6) CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Disposals and Adjustments	Balance June 30, 2016
Assets not being depreciated - land	\$ 216,341	\$ -	\$ -	\$ 216,341
Capital assets being depreciated:				
Building and improvements	20,892,235			20,892,235
Buses and other vehicles	256,302	6,675	(8,016)	254,961
Furniture and equipment	2,562,688			2,562,688
Subtotal	23,711,225	6,675	(8,016)	23,709,884
Accumulated depreciation:				
Building and improvements	7,638,562	522,679		8,161,241
Buses and other vehicles	232,927	4,008	(3,507)	233,428
Furniture and equipment	1,637,337	231,723		1,869,060
Subtotal	9,508,826	758,410	(3,507)	10,263,729
Net capital assets being depreciated	14,202,399	(751,735)	(4,509)	13,446,155
Net capital assets	\$ 14,418,740	\$ (751,735)	\$ (4,509)	\$ 13,662,496

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

Governmental activities:	
Instruction	\$ 151,818
Support services	13,315
Athletics	13,436
Food services	3,980
Unallocated	575,861
Total governmental activities	\$ 758,410

(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, 2016 is as follows:

	Balance <u>6/30/15</u>	Additions	Deletions	Balance <u>6/30/16</u>
Note payable – bank	\$1,400,000	\$1,600,000	\$1,400,000	\$1,600,000

(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:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental Activities					
Bonds	\$ 10,250,000	\$ -	\$ (620,000)	\$ 9,630,000	\$ 665,000
Installment notes	136,362		(59,838)	76,524	61,317
Other obligations	145,946		(1,486)	144,460	
Total Governmental Activities	<u>\$ 10,532,308</u>	<u>\$ -</u>	<u>\$ (681,324)</u>	<u>\$ 9,850,984</u>	<u>\$ 726,317</u>

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

	Bonds			Installment Notes		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 665,000	\$ 580,985	\$ 1,245,985	\$ 61,317	\$ 1,609	\$ 62,926
2018	710,000	563,185	1,273,185	10,455	243	10,698
2019	760,000	545,585	1,305,585	4,752	29	4,781
2020	815,000	528,385	1,343,385			
2021	865,000	511,385	1,376,385			
2022 - 2026	4,855,000	2,330,325	7,185,325			
2027 - 2028	960,000	446,985	1,406,985			
	<u>\$ 9,630,000</u>	<u>\$ 5,506,835</u>	<u>\$ 15,136,835</u>	<u>\$ 76,524</u>	<u>\$ 1,881</u>	<u>\$ 78,405</u>

Governmental Activities

General obligation bonds consist of the following:

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 \$445,000 and interest at 4.0%. \$ 3,350,000

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 \$220,000 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 a portion (currently 93.2%) of the interest on the bonds. 6,280,000

Total bonded debt \$ 9,630,000

Installment purchase notes payable consist of the following:

Capital lease payable with Apple, Inc. issued for \$117,250 for the purchase of iPads, matures in 2016 with interest at 2.73% and yearly payments of \$40,141. \$ 39,074

Note payable with KS StateBank, issued for \$45,538 for the purpose of energy efficiency improvements, matures in 2018 with interest at 1.99% and monthly payments of \$797. 23,296

Note payable with Superior National Bank, issued for \$50,820 for technology needs, matures in 2017 with interest at 1.98% and monthly payments of \$1,102. 14,154

Total installment debt \$ 76,524

Other governmental activity long-term obligations include:

Employee-compensated absences \$ 144,460

(9) FUND BALANCE/NET POSITION

As of June 30, 2016, Fund Balances are comprised of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Non-Spendable:				
Prepays	\$ 11,461	\$ -	\$ -	\$ 11,461
Inventory	39,713	10,652		50,365
Restricted:				
Hockey program	10,571			10,571
Debt Service			463,098	463,098
Unassigned	605,593	(1,125)		604,468
Total Fund Balances	<u>\$ 667,338</u>	<u>\$ 9,527</u>	<u>\$ 463,098</u>	<u>\$ 1,139,963</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.

Fund Balance / Net Position Adjustment

Beginning fund balance and net position has been increased in the Food Service Fund to reflect actual indirect cost reimbursements received for the year ended June 30, 2015.

(10) EMPLOYEE RETIREMENT SYSTEM

Description of Plan

The School District is a participant in a cost-sharing, multiple-employer, state-wide defined benefit pension plan with the Michigan Public School Employees' Retirement System (MPERS), administered by the State of Michigan, Department of Management and Budget, Office of Retirement Services (ORS) and covers substantially all employees of the School District. MPERS provides retirement, survivor, disability, and post-employment health benefits to plan members and their beneficiaries.

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

Benefit Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. The System also provides disability and survivor benefits to DB plan members.

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

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

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

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

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

The School District's required and actual contributions to the plan for the year ended June 30, 2016 was \$1,213,434. The School District's required and actual contributions include an allocation of \$717,124 of revenue received from the State of Michigan under Section 147c, and remitted to the system, to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2016, the School District reported a liability of \$18,220,269 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30,

2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participants. At September 30, 2015 and 2014, the District's proportion was .07460 and .07512 percent, respectively.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,523,118 exclusive of Section 147c payments from the State to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Net Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ (60,351)
Changes of assumptions	448,622	
Net difference between projected and actual earnings on pension plan investments	93,000	
Changes in proportion and differences between School District's contributions and proportionate share of contributions	34,832	(97,577)
School District's contributions subsequent to the measurement date	876,662	
Total	<u>\$ 1,453,116</u>	<u>\$ (157,928)</u>

The \$876,662 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year Ending June 30	Amount
2016	\$ 34,243
2017	34,243
2018	9,917
2019	340,123
Thereafter	-
	<u>\$ 418,526</u>

Actuarial Assumptions

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

Actuarial Cost Method	Entry age, Normal cost
Assumed Rate of Return	7.00 to 8.00 percent, net of investment and administrative expenses based on the plan groups
Rate of Pay Increases	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Mortality Assumption	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB.

The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of the experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Long-Term Expected Return on Plan Assets

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.0%	5.9%
Alternative investment pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Absolute return pools	15.5	6.0
Short-term investment pools	2.0	0.0
Total	100%	

*Long term rate of return does not include 2.1% inflation

Discount Rate

A discount rate used to measure the total pension liability was 8% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher than the current rate:

1% Decrease (7.0% / 6.0%)	Current Discount Rate (8.0% / 7.0%)	1% Increase (9.0% / 8.0%)
\$23,490,597	\$18,220,269	\$13,777,166

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan

At June 30, 2016, the School District was current on all required pension plan payments and for financial statement purposes reported a pension payable of \$221,069.

Post-Employment Benefits Other Than Pensions

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 5.52 percent to 6.45 percent of covered payroll for the period from July 1, 2014 to September 30, 2014, and from 2.20 percent to 2.71 percent of covered payroll for the period from October 1, 2014 through September 30, 2015 and from 6.40 percent to 6.83 percent for the period October 1, 2015 to June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to

the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403 (b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the year ended June 30, 2016 and 2015 were \$359,366 and \$223,208 respectively.

(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 with 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, 2016 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 78% 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) NEW ACCOUNTING PRONOUNCEMENTS

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

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016

	Original Budget	Final Amended Budget	Actual
Revenues			
Local sources	\$ 2,108,081	\$ 2,136,927	\$ 2,151,245
State sources	10,775,616	11,292,659	11,337,496
Federal sources	587,113	533,619	527,071
Intergovernmental and other sources	75,800	146,343	151,043
Total Revenues	<u>13,546,610</u>	<u>14,109,548</u>	<u>14,166,855</u>
Expenditures			
Instruction:			
Basic programs	7,684,655	7,892,980	7,930,955
Added needs	1,465,145	1,358,493	1,327,830
Support services:			
Pupil	392,912	425,446	422,316
Instruction staff	121,821	225,854	226,195
General administration	279,667	281,157	280,782
School administration	1,128,374	1,170,589	1,170,564
Business services	232,789	245,138	244,603
Operations and maintenance	1,307,088	1,367,415	1,345,788
Transportation	400,983	389,835	387,771
Central services	259,160	227,410	226,127
Athletics	274,476	282,023	280,820
Debt retirement costs	21,956	61,822	62,926
Capital outlay	-	6,675	6,675
Intergovernmental and other services	6,000	55,243	55,243
Total Expenditures	<u>13,575,026</u>	<u>13,990,080</u>	<u>13,968,595</u>
Excess (deficiency) of revenues over expenditures	(28,416)	119,468	198,260
Other Financing Sources (Uses):			
Transfers in/(out)		56,832	55,938
Sale Proceeds		4,200	4,200
Loan proceeds			
Excess (deficiency) of revenues and other sources over (under) expenditures	(28,416)	180,500	258,398
Fund Balance - June 30, 2015	<u>408,940</u>	<u>408,940</u>	<u>408,940</u>
Fund Balance - June 30, 2016	<u><u>\$ 380,524</u></u>	<u><u>\$ 589,440</u></u>	<u><u>\$ 667,338</u></u>

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Schedule of Proportionate Share of the Net Pension
Liability- Michigan Public School Employees Retirement Plan
Determined as of the Plan Year Ended September 30

	2015	2014
School District's proportion of the net pension liability (asset)	0.07460%	0.07512%
School District's proportionate share of the net pension liability (asset)	\$ 18,220,269	\$ 16,546,391
School District's covered employee payroll	6,566,998	6,704,842
School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	277.45%	246.78%
Plan fiduciary net position as a percentage of the total pension liability	63.17%	66.20%

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Schedule of Contributions- Michigan Employees Retirement Plan
Determined as of the Year Ended June 30

	2016	2015
Statutorily required contribution	\$ 1,213,434	\$ 1,363,987
Contributions in relation to the statutorily required contribution	1,213,434	1,363,987
Contribution deficiency (excess)	-	-
School District's covered employee payroll	6,416,620	6,635,649
Contributions as a percentage of covered employee payroll	18.91%	20.56%

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Notes to Pension Required Supplemental Information Schedules
Year Ended June 30, 2016

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

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

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Student Activities Agency Fund
Statement of Additions and Deductions of Individual School Activity Groups
Year Ended June 30, 2016

Activity Account	Balance Due To (From) Activity Groups June 30, 2015	Additions & Transfers	Deductions & Transfers	Balance Due To (From) Activity Groups June 30, 2016
Calumet High School	\$ 128,446	\$ 215,629	\$ 203,414	\$ 140,661
Washington Middle School	11,630	30,036	26,820	14,846
CLK Elementary	17,058	26,317	23,931	19,444
Totals	\$ 157,134	\$ 271,982	\$ 254,165	\$ 174,951

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor Program Title/Grant Number	Federal CFDA Number	Approved Grand Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2015	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2016
U.S. Department of Education (USDE):							
Passed Thru MI Dept. Ed. (MDE)							
<u>Title 1, Part A Cluster**</u>							
Title 1, Part A of ESEA	84.010						
151530-1415		\$ 332,235	\$ 254,406	\$ 4,615	\$ 4,615	\$ -	\$ -
161530-1516		386,143			269,411	338,573	69,162
Subtotal		718,378	254,406	4,615	274,026	338,573	69,162
Title VI Part B Subpart 2	84.358B						
150660-1415		27,785	27,782	10,018	10,018		
160660-1516		8,646			6,219	8,646	2,427
Subtotal		36,431	27,782	10,018	16,237	8,646	2,427
Title II, Part A							
Teacher/Principal Training	84.367						
150520-1415		61,189	38,518	5,546	5,546		
160520-1516		152,291			81,168	112,513	31,345
Subtotal		213,480	38,518	5,546	86,714	112,513	31,345
Total USDE Passed Thru MDE		968,289	320,706	20,179	376,977	459,732	102,934
U.S. Department of Defense:							
Direct Program:							
U.S. Army JROTC-MI 021135-2016	N/A	63,943			58,491	63,943	5,452
U.S. Army JROTC-MI 021135-2015		61,939	61,939	5,177	5,177		
Total US Dept of Defense-Direct		125,882	61,939	5,177	63,668	63,943	5,452

(CONTINUED....)

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Schedule of Expenditures of Federal Awards (Continued)
For Fiscal Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor Program Title/Grant Number	Federal CFDA Number	Approved Grand Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2015	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2016
U.S Department of Agriculture (USDA):							
Passed Through MDE							
<u>Child Nutrition Cluster</u>							
Non-cash Assistance							
Nat'l Sch. Lunch:	10.555						
Entitlement Commodities		\$ 62,399	\$ -	\$ -	\$ 62,399	\$ 62,399	\$ -
Cash Assistance							
Nat'l Sch. Lunch	10.555						
151960-Sec.11 Free & Reduced		357,803	322,415		35,388	35,388	
161960-Sec.11 Free & Reduced		321,343			321,343	321,343	
Subtotal		679,146	322,415		356,731	356,731	
School Breakfast Program	10.553						
151970-Breakfast		84,089	75,280		8,809	8,809	
161970-Breakfast		89,272			89,272	89,272	
Subtotal		173,361	75,280		98,081	98,081	
Total Child Nutrition Cluster		914,906	397,695		517,211	517,211	
Child Adult Care Food Program	10.558						
151920		1,415	1,193	267	489	222	
161920		3,033			2,498	2,679	181
152010		562	482	104	184	80	
162010		794			680	723	43
Subtotal		5,804	1,675	371	3,851	3,704	224
Total USDA Passed Thru MDE		920,710	399,370	371	521,062	520,915	224
Total Federal Financial Assistance		\$ 2,014,881	\$ 782,015	\$ 25,727	\$ 961,707	\$ 1,044,590	\$ 108,610

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Schedule of Expenditures of Federal Awards (Continued)
For Fiscal Year Ended June 30, 2016

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) GRANT AUDITOR REPORT

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

(C) NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

(D) SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION
WITH BASIC FINANCIAL STATEMENTS FEDERAL REVENUE

The total current year schedule of expenditures of federal awards amounts of \$1,044,590 equals the revenue from federal sources as reported in the financial statements, except for \$308 of ineligible costs paid back related to CFDA 84.010 Title I, Part A program 151530-1415.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of Calumet, Laurium & Keweenaw (School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as item 2016-1.

School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Paul R. Sturos

Paul R. Sturos
Certified Public Accountant
October 31, 2016

PAUL R. STUROS

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**Independent Auditor’s Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited the Public Schools of Calumet, Laurium & Keweenaw’s (School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District’s major federal programs for the year ended June 30, 2016. The School District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the School District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Public Schools of Calumet, Laurium & Keweenaw’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Public Schools of Calumet, Laurium & Keweenaw complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Public Schools of Calumet, Laurium & Keweenaw, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Paul R. Sturos

Paul R. Sturos
Certified Public Accountant
October 31, 2016

PUBLIC SCHOOLS OF CALUMET, LAURIUM & KEWEENAW
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

PRIOR YEAR

Finding 2015-1: Budget Noncompliance (Financial Statements)

Condition: This finding was for incurring expenditures in excess of budgeted amounts in certain funds of the School District.

Recommendation: The auditor recommended that procedures be implemented for developing and amending budgets so that state budgeting laws are complied with. The District concurred with the recommendation.

Current Status: A similar finding was noted in the current audit.

Finding 2015-2: Internal Control (Federal Program)

Condition: This finding dealt with developing specific policies and procedures for administrating the accounting activities and functions related to cash draws, payroll, and disbursements.

Recommendation: The auditor recommended that the applicable policies and procedures be implemented and the District concurred.

Current Status: Specific policies and procedures have been implemented. No similar finding was noted in the current audit.

CURRENT YEAR

A. Summary of Auditor's Results

- 1) The auditor's report expresses unmodified opinions on the financial statements of the Public Schools of Calumet, Laurium & Keweenaw.
- 2) No significant deficiencies or material weaknesses in internal control or any material noncompliance were reported in the financial statements however, there was an instance of noncompliance in the financial statements that was reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and further noted in item B below.
- 3) No significant deficiencies or material weaknesses in internal control over major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
- 4) The auditor's report on compliance for the major federal programs for the Public Schools of Calumet, Laurium & Keweenaw expresses an unmodified opinion on all major federal programs.

5) Audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this schedule.

6) Programs tested as major programs include:

<u>Program</u>	<u>CFDA#</u>
Title I, Part A	84.010

7) The threshold for distinguishing Type A and B programs is \$750,000.

8) The Public Schools of Calumet, Laurium & Keweenaw was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

NONCOMPLIANCE

2016-1 Condition/Criteria: The School District violated aspects of the Uniform Budgeting and Accounting Act of the State of Michigan by incurring expenditures in excess of budgeted amounts in certain funds of the District, as detailed in the Notes to the financial statements.

Effect: The District is not in compliance with State law.

Cause of Condition: The use of non-updated financial information in the budgeting process.

Recommendation: District officials should review current updated financial information when developing and amending budgets so that they are in compliance with State budgeting laws.

Response: The District concurs with the recommendation and will strive to use the most current financial information available during the budgeting process.

This is a repeat finding.

C. Findings and Questioned Costs – Major Federal Award Program Audit

None

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October 31, 2016

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

We 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 (School District) for the year ended June 30, 2016 and have issued our report thereon dated October 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 24, 2016. Professional standards also require that we communicate to you the following information related to our 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 School District are described in Note (1) to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We 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 financial statements relate to management's estimate of accumulated depreciation and depreciation expense based on historical cost and estimated useful asset life and estimates of accumulated vacation and sick leave liabilities. We evaluated the key factors and assumptions used to develop these items 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

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. All potential adjustments identified were reviewed, accepted and posted by management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2016.

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 School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

As identified in the *Schedule of Findings and Questioned Costs*, one finding was noted with regard to budgeting noncompliance.

In addition, we are recommending that a formal set of books be established for the Scholarship Fund, due to its increasing complexities.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedule, and pension schedules and notes, as identified in the table of contents, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of expenditures of federal awards and the Statement of Additions and Deductions of Individual School Activity Groups, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the information and 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.

We appreciate the opportunity to be of service to the Public Schools of Calumet, Laurium & Keweenaw and express our gratitude for the courtesy and cooperation extended to us during the engagement. In addition, we welcome any questions you may have regarding this communication and are willing to discuss any of these or other questions that you might have at your convenience.

Paul R. Sturos

Paul R. Sturos
Certified Public Accountant