



REPORT ON FINANCIAL STATEMENTS
(with required and additional information)

JUNE 30, 2016



CONTENTS

	<u>Page</u>
Independent auditors' report	1-2
Management's discussion and analysis	3-9
Basic financial statements:	
Government-wide financial statements:	
Statement of Net Position	10
Statement of Activities	11
Fund financial statements:	
Balance sheet – Governmental funds	12
Reconciliation of the governmental funds balance sheet with the statement of net position	13
Statement of revenues, expenditures and changes in fund balance – Governmental funds	14
Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities	15
Statement of fiduciary net position	16
Notes to financial statements	17-32
Required Supplementary Information	
Schedule of revenues, expenditures and changes in fund balance – budget and actual - General fund	33
Schedule of the reporting unit's proportionate share of the net pension liability & Schedule of the reporting unit's contributions	34
Notes to required supplementary information	35
Trust and agency fund	
Statement of receipts and disbursements	36
Independent Auditor's Report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with <i>Government Auditing Standards</i>	37-38
Independent Auditor's Report on compliance with requirements applicable to each major program and internal control over compliance required by OMB Circular A-133	39-40
Schedule of expenditures of federal awards	41-42
Notes to schedule of expenditures of federal awards	43
Schedule of findings and questioned costs	44-45
Schedule of prior audit findings	46



INDEPENDENT AUDITORS' REPORT

September 28, 2016

Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste. Marie, 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 Joseph K. Lumsden Bahweting Public School, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School'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 Joseph K. Lumsden Bahweting Public School, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–9 and 33-35 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 Joseph K. Lumsden Bahweting Public School's basic financial statements. The combining and individual nonmajor fund financial statements 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 combining and individual non-major fund financial statements 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 combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of Joseph K. Lumsden Bahweting Public School'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 Joseph K. Lumsden Bahweting Public School's internal control over financial reporting and compliance.

Traverse City, MI
September 28, 2016

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

This section of the Joseph K. Lumsden Bahweting Public School's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the School's financial statements, which immediately follow this section.

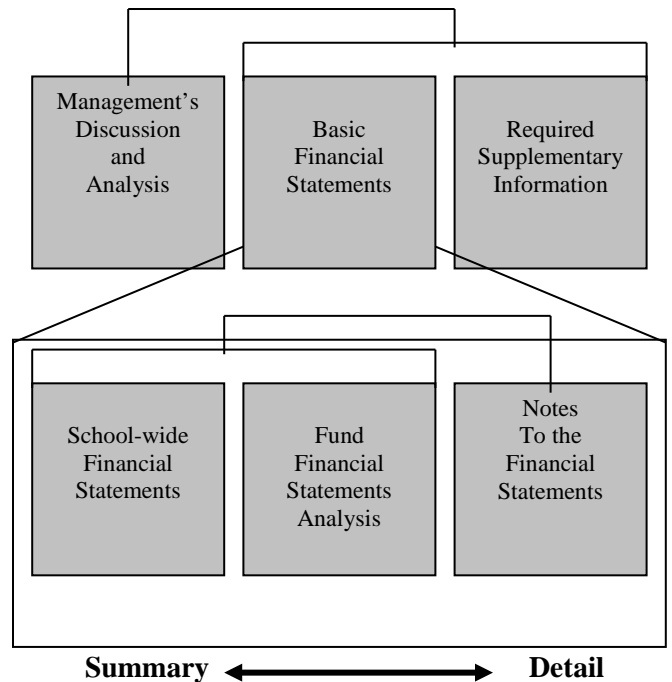
Financial Highlights

- The School's financial status improved this year. Total government-wide net position increased by approximately \$24,500.
- At the end of the current fiscal year, the fund balance in the General Fund is \$4,360,812, an increase of \$259,396.
- Student enrollment increased from 490.04 to 511.93 (blended count).
- Total governmental fund balance decreased by \$66,829 from the prior year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Public School.

**Figure A-1
Required Components of
The School's Annual Financial Report**



- The first two statements are School-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the School's budget for the years. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2			
Major Features of the School-Wide and Fund Financial Statements			
	School-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the School is the trustee or agent for someone else's resources such as student activities monies
Required Financial Information	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset Liability Information	All assets and liabilities, both financial and capital, and short- term and long- term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year regardless of when cash is received or paid.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

School-wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the School'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.

The two School-wide statements report the School's net position and how it has changed. Net position – the difference between the School's assets and liabilities – is one way to measure the Schools financial health or position.

- Over time, increases or decreases in the School's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional non-financial factors such as changes in the condition of school building and other facilities.

The government-wide financial statements of the School are:

- Governmental activities – Most of the School's basic services are included here, such as regular and special education, transportation and administration. Federal funds and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds: not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The School establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The School has two kinds of funds:

- Governmental funds – Most of the School's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the School-wide Statements and the Fund financial Statements.
- Fiduciary funds – The School is trustee, or fiduciary, for assets that belong to others, such as student activities and scholarship funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Analysis of the School as a Whole

Net Position. The School's combined net position was improved on June 30, 2016 than it was the year before, increasing by approximately \$24,500. Figure A-3 illustrates the valuation of net position on June 30, 2016 and 2015.

Figure A-3

Condensed Statement of Net Position

	2016	2015
Assets		
Current	\$ 5,634,134	\$ 5,484,7814
Non-current	1,536,016	1,427,126
Total assets	7,170,150	6,911,907
Deferred Outflows of Resources	1,797,281	1,358,654
Liabilities		
Current	985,395	769,213
Non-Current	11,963,809	10,399,514
Total liabilities	12,949,204	11,168,727
Deferred Inflows of Resources	39,566	1,147,630
Net Position		
Invested in capital assets, net of related debt	1,536,016	1,427,126
Nonspendable	93,416	75,653
Restricted	26,152	34,540
Unassigned	(5,676,923)	(5,583,115)
Total net position	\$ (4,021,339)	\$ (4,045,796)

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Figure A-4

Results of Operations:

	2016	2015
Revenues:		
Unrestricted state aid	\$ 3,795,658	\$ 3,529,591
Unrestricted federal grants	2,992,267	2,846,481
Investment earnings	6,628	8,119
Other revenues	92,744	27,144
Charges for services	44,057	48,819
Operating grants and contributions	3,056,278	2,540,360
Total revenues	9,987,632	9,000,514
Expenditures:		
Instruction	6,239,898	5,687,394
Support services	3,087,792	2,722,336
Food service	362,265	316,763
Athletics and student activities	70,600	43,283
Depreciation	202,620	206,054
Total expenditures	9,963,175	8,975,830
CHANGE IN NET POSITION	\$ 24,457	\$ 24,684

The School's financial position is the product of many factors. Enrollment increased and categorical funding increased. The District developed and implemented a long-term compensation package for employees and increased technology equipment for all classrooms.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Analysis of the School's Funds

As the Public School completed the year its governmental funds reported combined fund balances of \$4,648,739 increasing over last year's ending fund balances of \$4,715,568.

General Fund Budgetary Highlights

Over the course of the year, the School revised the annual operating budget two times. The budget amendments were necessary to account for fluctuations in revenues and expenses. Significant items causing the budget amendments were:

- Enrollment increased from original projections by 21.89 students (blended count)
- Federal revenues increased
- Changes to MPSERS retirement contribution
- Purchased computer equipment for classrooms
- Purchased furnishings for new gymnasium
- Higher rent and utility costs for new gymnasium
- Implemented new employee compensation package

At the end, actual expenditures were \$9,311,539 compared to \$9,401,178 budgeted, which represents a favorable budget variance of \$89,639.

Actual revenues were \$9,683,694 compared to \$9,695,178 budgeted, which represents an unfavorable budget variance of \$11,484.

Capital Asset and Debt Administration

Capital Assets:

By the end of 2016, the School had invested \$3,686,835 in a broad range of capital assets, including school buildings, software, busses, technology and electronic surveillance equipment.

The amount represents a \$196,379 increase from last year.

Total depreciation expense for the year was \$202,620.

Long Term Liabilities:

Total long-term liabilities at June 30, 2016 consisted of liability for accrued vacations of \$18,593 and net pension liability of \$11,945,216.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Factors Bearing on the School's Future

The following factors have been considered in preparing the budget for the 2016-17 school year:

- Enrollment projected to stay the same as prior year
- State aid projected to stay the same as prior year
- Completion of gymnasium project results in more building rent cost
- Added three new positions (Dean of Students, part-time custodian and part-time secretary)
- Purchase a new school bus
- Building improvements (hallway carpet replacement and cafeteria renovation)
- Playground expansion

Contacting the School's Financial Management

This financial report is designed to provide the School's citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative office, Joseph K. Lumsden Bahweting Public School.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 3,646,421
Other Receivables	4,056
Due from other governmental units	1,890,241
Inventory and prepaid items	<u>93,416</u>
Total current assets	<u>5,634,134</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,536,016</u>
Total Assets	<u>7,170,150</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions (Note 9)	<u>1,797,281</u>
--	------------------

LIABILITIES

Current liabilities:	
Accounts payable and other current liabilities	552,375
Salaries payable	422,682
Unearned revenue	<u>10,338</u>
Total current liabilities	<u>985,395</u>
Noncurrent liabilities:	
Compensated absences payable	18,593
Net pension liability	<u>11,945,216</u>
Total noncurrent liabilities	<u>11,963,809</u>
Total Liabilities	<u>12,949,204</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 9)	<u>39,566</u>
---	---------------

NET POSITION

Invested in capital assets, net of related debt	1,536,016
Nonspendable	93,416
Restricted	26,152
Unassigned	<u>(5,676,923)</u>
Total Net Position	<u>\$ (4,021,339)</u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (expenses) And changes in Net position
			Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities:					
Instruction and Instructional Services	\$ 6,239,898	\$	\$ 2,862,211	\$	\$ (3,377,687)
Supporting services	3,087,792				(3,087,792)
Food service	362,265	44,057	194,067		(124,141)
Athletics and student activities	70,600				(70,600)
Depreciation (Unallocated)	202,620				(202,620)
Total governmental activities	\$ 9,963,175	\$ 44,057	\$ 3,056,278	\$	(6,862,840)
General revenues:					
					3,795,658
					95,213
					2,992,267
					4,159
Total General revenues					6,887,297
CHANGES IN NET POSITION					
					24,457
Net position – beginning of year, as reported					(4,045,796)
Net position – end of year					\$ (4,021,339)

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Capital Projects Fund	Other Governmental Funds- Food Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,329,758	\$ 292,479	\$ 24,184	\$ 3,646,421
Receivables:				
Accounts			4,056	4,056
Due from other governmental units	1,890,241			1,890,241
Prepaid expenses	91,967			91,967
Inventory			1,449	1,449
	<u>\$ 5,311,966</u>	<u>\$ 292,479</u>	<u>\$ 29,689</u>	<u>\$ 5,634,134</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 520,222	\$ 32,153	\$	\$ 552,375
Salaries payable	422,682			422,682
Unearned revenue	8,250		2,088	10,338
	<u>951,154</u>	<u>32,153</u>	<u>2,088</u>	<u>985,395</u>
Fund balances:				
Nonspendable	91,967		1,449	93,416
Restricted			26,152	26,152
Committed	3,038,443	260,326		3,298,769
Assigned	318,830			318,830
Unassigned	911,572			911,572
	<u>4,360,812</u>	<u>260,326</u>	<u>27,601</u>	<u>4,648,739</u>
Total fund balances	<u>\$ 5,311,966</u>	<u>\$ 292,479</u>	<u>\$ 29,689</u>	<u>\$ 5,634,134</u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2016**

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

Total Fund Balance - Governmental Funds		\$ 4,648,739
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
	The cost of capital assets is	3,686,835
	Accumulated depreciation is	<u>(2,150,819)</u>
		1,536,016
<p>Long-term liabilities, including Net Pension Liability, are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
	Compensated absences (vacations)	(18,593)
	Net Pension Liability	<u>(11,945,216)</u>
		(11,963,809)
	Deferred outflows related to pensions are not reported in governmental funds	1,797,281
	Deferred inflows related to pensions are not reported in the governmental funds	<u>(39,566)</u>
Total net position - governmental activities		<u><u>\$ (4,021,339)</u></u>

See notes to financial statements.

JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General	Capital Projects Fund	Other Governmental Funds- Food Service Fund	Total Governmental Funds
REVENUES:				
Local sources	\$ 31,522	\$ 622	\$ 44,057	\$ 76,201
State sources	4,487,620		6,837	4,494,457
Federal sources	5,162,516		187,230	5,349,746
 Total revenues	 <u>9,681,658</u>	 <u>622</u>	 <u>238,124</u>	 <u>9,920,404</u>
 Instruction:				
Basic instruction	3,981,115			3,981,115
Added needs	2,241,179			2,241,179
 Total Instruction	 <u>6,222,294</u>	 <u></u>	 <u></u>	 <u>6,222,294</u>
 Support Services:				
Pupil services	137,213			137,213
Instructional staff	269,077			269,077
General Administration	503,690			503,690
School Administration	311,100			311,100
Business	537,765			537,765
Operations and Maintenance	861,464			861,464
Capital Expenditures		381,240		381,240
Transportation	398,336			398,336
Food service			362,265	362,265
Athletics and student activities	70,600			70,600
 Total support services	 <u>3,089,245</u>	 <u>381,240</u>	 <u>362,265</u>	 <u>3,832,750</u>
 Total expenditures	 <u>9,311,539</u>	 <u>381,240</u>	 <u>362,265</u>	 <u>10,055,044</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>370,119</u>	 <u>(380,618)</u>	 <u>(124,141)</u>	 <u>(136,640)</u>
 OTHER FINANCING SOURCES (USES):				
Proceeds from sale of fixed assets	2,036	65,775		67,811
Operating transfers in			112,759	112,759
Operating transfers out	(112,759)			(112,759)
 Total other financing sources (uses)	 <u>(110,723)</u>	 <u>65,775</u>	 <u>112,759</u>	 <u>67,811</u>
 NET CHANGES IN FUND BALANCES	 259,396	 (314,843)	 (11,382)	 (66,829)
 FUND BALANCE - Beginning of year	 <u>4,101,416</u>	 <u>575,169</u>	 <u>38,983</u>	 <u>4,715,568</u>
 FUND BALANCE - End of year	 <u>\$ 4,360,812</u>	 <u>\$ 260,326</u>	 <u>\$ 27,601</u>	 <u>\$ 4,648,739</u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Total net change in fund balances - governmental funds **\$ (66,829)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital Outlays	375,162	
Basis of assets disposed	(63,652)	
Depreciation Expense	<u>(202,620)</u>	108,890

In the statement of activities, certain compensated absences (vacations) and special termination benefits are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The amounts included in the statement of activities are:

Compensated absences (vacations)	(139)
----------------------------------	-------

The Governmental funds report pension expense based on the monthly payroll expense, whereas the net Pension Liability is not a use of current resources of governmental funds. The net adjustment of the Pension liability in the statement of activities is as follows:

Change in Net Pension Liability and related deferred inflows and outflows	<u>(17,465)</u>
---	-----------------

Change in net position of governmental activities **\$ 24,457**

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
TRUST AND AGENCY FUNDS
JUNE 30, 2016 AND 2015**

	2015	2016
ASSETS		
Cash	\$ 12,229	\$ 13,266
	\$ 12,229	\$ 13,266
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 12,229	\$ 13,266

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Charter School – The Charter School was organized under Act 362 of the Michigan Public Acts of 1993. This Act allows for this School to be eligible for State Aid and must comply with the Michigan School Code provisions. The School operates under a grant agreement with the Board of Control – Northern Michigan University. The School was created to provide a learning experience which includes Ojibwa culture, values and traditions. The School’s agreement with Northern Michigan University will expire on June 30, 2020.

The basic financial statements of Joseph K. Lumsden Bahweting Public School (the Joseph K. Lumsden Bahweting Public School) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

Reporting Entity

In evaluating how to define the School, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the general purpose financial statements of School contain all the funds and account groups controlled by the School’s Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the School nor is the School a component unit of another entity.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the school. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The School has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the 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. General grants and other items not properly included among program revenues are reported instead as *general revenues*.

The School first utilizes restricted resources to finance qualifying activities.

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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized 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 provided have been met.

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

The Joseph K. Lumsden Bahweting Public School reports the following major governmental funds:

The *general fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the acquisition or construction of major capital projects.

Additionally, the School reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Lunch is considered a special revenue fund.

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School holds for others in an agency capacity (primarily student activities).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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

Property taxes, state foundation revenue, interest and charges for services are susceptible to accrual. Other receipts become measurable and available when cash is received by the School and are recognized as revenue at that time. State and federal revenues are recognized as follows:

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

State Foundation Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school Schools based on information supplied by the Schools. For the year ended June 30, 2016 the foundation allowance was based on the pupil membership counts taken in February and September 2015.

The state revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

Categorical

The School also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Assets, Liabilities and Equity

1. Cash and investments

The Joseph K. Lumsden Bahweting Public School reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the School intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity (continued)

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

3. Inventories and Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized and are not included as a reservation of fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the Joseph K. Lumsden Bahweting Public School is depreciated using the straight line method over the following estimated useful lives:

Buildings	25 yrs
Building and site improvements	20 yrs
General equipment	10-20 yrs
Vehicles	8 yrs
Office furniture and fixtures	7 yrs
Computer equipment	5 yrs

5. Compensated Absences

Accumulated vacation and sick pay amounts which are expected to be liquidated with expendable available resources (generally sixty days) are recorded in the general fund while the remainder of the liability is recorded in the school-wide financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity (continued)

6. Unemployment Insurance

The School reimburses the State of Michigan for the actual amount of unemployment benefits disbursed by the State on behalf of the School. Billings are received for amounts paid by the State through June 30 are accrued.

7. Fund Balance

Fund balances are reported in the following classifications. *Nonspendable*, includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted*, includes amounts that are restricted to specific purposes, or imposed by law through constitutional provisions or enabling legislation. *Committed*, are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. *Assigned*, amounts that are constrained by the Superintendent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund. It represents amount that have not been restricted, committed or assigned to a specific purpose.

8. Use of Estimates

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The School maintains a formalized encumbrance accounting system.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Budgeting Act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balance – budget and actual – GAAP basis – general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the School by each of the School's funds.

Deposits

At year-end, the carrying amount of the School's deposits was \$3,659,587 and the bank balance was \$3,929,264, of which \$763,266 was covered by federal depository insurance and \$3,165,998 was uninsured and uncollateralized. The School has \$100 in petty cash on hand.

Interest Rate Risk – The School will monitor interest rate risk by using and analyzing, segmented time distribution, specific identification and time duration of investments, limiting its investment portfolio to one year or less.

Credit Risk - State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The School policy places no limit on the amount the School may invest. The School may invest 100% of its available reserve in U.S. Treasury securities and those securities completely guaranteed by the Treasury. Investments in other types of authorized securities may be made at no more than 25% of total current investment portfolio. The total current investment portfolio consists of one type of security.

A reconciliation of cash as shown on the combined balance sheet follows:

Cash on hand	\$ 100
Carrying amount of deposits	<u>3,659,587</u>
Total	<u><u>\$ 3,659,687</u></u>
Cash and cash equivalents:	
Governmental activities	\$ 3,646,421
Fiduciary funds	<u>13,266</u>
Total	<u><u>\$ 3,659,687</u></u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – RECEIVABLES

Receivables at June 30, 2016 consist of the following:

Governmental units	<u>\$ 1,890,240</u>
--------------------	---------------------

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. Because of the School's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 5 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. It relates to the District's net pension plan liability and is composed from the changes in assumptions, changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises from the District's net pension plan liability. It is composed of the District's share of the net difference between projected and actual earnings on pension plan investments.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LONG-TERM LIABILITIES

The Schools employment policy provides for School staff who are classified as regular, full, part time, or seasonal to accrue vacation according to the following schedule:

Employees hired on or before 6/30/2009

1. Year-round salaried employees receive fifteen (15) days for the first year of employment and accrue five (5) days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Year-round hourly employees receive ten (10) days for the first year of employment and accrue five (5) days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
3. Teachers accrue four (4) days per school year.
4. Seasonal employees accrue 3.89 days per school year. Additionally, after three years of consecutive employment with the school, they can accrue one additional day per year, up to a maximum of three (3) days.
5. Only 8 hours of vacation may be carried over at year-end. Any hours in excess of 8 are converted into sick time hours. Sick time hours are not paid out upon termination, and are therefore not carried as a liability.

Employees hired on or after 7/01/2009

1. Year-round salaried employees receive ten (10) days for the first year of employment and accrue 5.37 days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Year-round hourly employees receive five (5) days for the first year of employment and accrue 5.37 days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
3. Teachers accrue four (4) days per school year.
4. Seasonal employees accrue 3.89 days per school year.
5. Only 8 hours of vacation may be carried over at year-end. Any hours in excess of 8 are converted into sick time hours. Sick time hours are not paid out upon termination, and are therefore not carried as a liability.

A summary of accrued compensated absences at June 30, 2016 is as follows:

	Beginning	Additions	Deletions	Ending
Vacation	<u>\$ 18,454</u>	<u>\$ 139</u>	<u>\$</u>	<u>\$ 18,593</u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 119,271	\$	\$ 63,069	\$ 56,202
Capital assets, being depreciated				
Land improvements	\$ 389,442	\$	\$	\$ 389,442
Leasehold improvements	633,071	13,442		346,513
Buildings and improvements	1,151,406	16,950	5,833	1,162,523
Furniture, fixtures, & equipment	576,484	344,770	60,547	860,707
Vehicles	620,782		49,334	571,448
Total historical cost	<u>\$ 3,371,185</u>	<u>\$ 375,162</u>	<u>\$ 115,714</u>	<u>\$ 3,630,633</u>
Less accumulated depreciation:				
Land improvements	\$ 136,933	\$ 22,343	\$	\$ 159,276
Leasehold improvements	458,000	29,669		487,669
Buildings and improvements	701,772	54,154	5,250	750,676
Furniture, fixtures, & equipment	326,546	56,121	60,547	322,120
Vehicles	440,079	40,333	49,334	431,078
Total accumulated depreciation	<u>\$ 2,063,330</u>	<u>\$ 202,620</u>	<u>\$ 115,131</u>	<u>\$ 2,150,819</u>
Governmental activities capital assets, net	<u>\$ 1,427,126</u>			<u>\$ 1,536,016</u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$202,620. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 8 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2016 were as follows:

<u>Fund Transferred Out</u>	<u>Fund Transferred In</u>	<u>Amount</u>
General fund	Food Service fund	\$ 112,759

Transfers were to subsidize operations.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM

Plan Description

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

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

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

Contributions and Funded Status

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.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability (UAAL) as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

The School's required and actual contributions to the plan for the year ended June 30, 2016 were \$1,471,255, including contributions of \$418,014 of revenue received from the State of Michigan to fund the MPSERS UAAL.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM - continued

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

At June 30, 2016, the School reported a liability of **\$11,945,216** for its proportionate share of the MPSERS 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 2014. The School’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the School’s proportion was 0.0489 percent, which was an increase of 0.0017 percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the Reporting Unit recognized total pension expense of \$1,100,300. At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 39,566
Changes of assumptions	294,117	-
Net difference between projected and actual earnings on pension plan investments	60,971	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	336,920	-
Reporting Unit contributions subsequent to the measurement date	1,105,273	-
Total	\$ <u>1,797,281</u>	\$ <u>39,566</u>

Deferred outflows of resources related to pensions of \$1,105,273 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 amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Plan Year Ended September 30	Amount:
2016	\$124,193
2017	\$124,193
2018	\$108,245
2019	\$295,811

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM - continued

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	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	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	100.0 %	

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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM - continued

Discount Rate

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

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

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School’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:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$15,400,445	\$11,945,216	\$9,032,316

Payable to the Pension Plan

At June 30, 2016, the School reported a payable of \$271,085 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

Postemployment 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 2.20 to 2.71 percent of covered payroll for the period from July 1, 2015 through September 30, 2015, and 6.40 to 6.83 percent of covered payroll for the period October 1, 2015 through June 30, 2016, dependent upon the employee’s date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare fund will automatically be 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 401 (k) account.

The School’s required and actual contributions to the plan for retiree healthcare benefits for the year ended June 30, 2016 were \$335,740. In addition, a portion of the MPSERS UAAL stabilization rate is considered a contribution to the retiree healthcare plan.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – RISK MANAGEMENT

The School is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered Public entity risk pools. The School pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School has not been informed of any special assessments being required.

The School continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 11 – LEASES

The School leases the main building and the 10-room portable building from the Sault Ste. Marie Tribe of Chippewa Indians on an operating lease. Monthly payments are subject to an annual increase determined by the Consumer Price Index as determined by the US Bureau of Labor Statistics. The maximum percentage of the increase is capped at 3% for any given year. Monthly lease payments under this formula were \$36,857 at June 30, 2016. Total rent paid during the year was \$395,449.

A new lease was signed July 1, 2015 for a 3 year term. The table below summarizes annual obligations under the most current operating lease.

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 442,284
2018	455,553
2019	469,220

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 – FUND BALANCE COMMITMENTS/ASSIGNMENTS

The fund balance as of June 30, 2016 has been committed as follows:

Committed Fund Balance:	
General fund:	
Unemployment compensation	\$ 480,012
Technology	150,000
Contract settlements	5,004
Building rent	1,326,859
Cash flow requirements	1,076,568
Capital Projects fund	<u>260,326</u>
	<u>\$ 3,298,769</u>
Assigned Fund Balance:	
General Fund	
Staff Compensation	<u>\$ 318,830</u>

NOTE 13 – RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2016 presentation.

NOTE 14 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2016, the most recent statement of financial position presented herein, through September 28, 2016, the issuance date of the accompanying financial statements. No significant such events or transactions were identified.

NOTE 15 – UPCOMING ACCOUNTING PRONOUNCEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local sources	\$ 10,000	\$ 38,567	\$ 31,522	\$ (7,045)
State sources	4,111,256	4,487,342	4,487,620	278
Federal sources	4,703,566	5,169,269	5,162,516	(6,753)
Total revenues	<u>8,824,822</u>	<u>9,695,178</u>	<u>9,681,658</u>	<u>(13,520)</u>
EXPENDITURES:				
Instruction:				
Basic instruction	3,902,842	4,026,537	3,981,115	45,422
Added needs	1,846,701	2,243,464	2,241,179	2,285
Total Instruction	<u>5,749,543</u>	<u>6,270,001</u>	<u>6,222,294</u>	<u>47,707</u>
Support Services:				
Pupil services	115,709	140,181	137,213	2,968
Instructional staff	168,815	262,035	269,077	(7,042)
General Administration	430,353	510,238	503,690	6,548
School Administration	298,353	311,696	311,100	596
Business	491,988	555,761	537,765	17,996
Operations and Maintenance	840,686	867,780	861,464	6,316
Transportation	351,686	412,186	398,336	13,850
Athletics and student activities	47,896	71,300	70,600	700
Total support services	<u>2,745,486</u>	<u>3,131,177</u>	<u>3,089,245</u>	<u>41,932</u>
Total expenditures	<u>8,495,029</u>	<u>9,401,178</u>	<u>9,311,539</u>	<u>89,639</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>329,793</u>	<u>294,000</u>	<u>370,119</u>	<u>76,119</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of fixed assets			2,036	2,036
Operating transfers out	(95,000)	(126,000)	(112,759)	13,241
Total other financing sources (uses)	<u>(95,000)</u>	<u>(126,000)</u>	<u>(110,723)</u>	<u>15,277</u>
NET CHANGES IN FUND BALANCES	<u>\$ 234,793</u>	<u>\$ 168,000</u>	259,396	<u>\$ 91,396</u>
FUND BALANCES:				
Beginning of year			4,101,416	
End of year			<u>\$ 4,360,812</u>	

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined 9/30 of each fiscal year)

	<u>2014</u>	<u>2015</u>
A. Reporting unit's proportion of net pension liability (%)	0.04713%	0.04890%
B. Reporting unit's proportionate share of net pension liability	\$ 10,381,060	\$ 11,945,216
C. Reporting unit's covered-employee payroll	\$ 4,126,485	\$ 4,106,618
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	251.57%	288.08%
E. Plan fiduciary net position as a percentage of total pension liability	66.20%	62.92%

Schedule of the Reporting Unit's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (July 1- June 30)

	<u>2015</u>	<u>2016</u>
A. Statutorily required contributions	\$ 956,574	\$ 863,656
B. Contributions in relation to statutorily required contributions	\$ 956,574	\$ 863,656
C. Contribution deficiency (excess)	-	-
D. Reporting unit's covered-employee payroll	\$ 4,146,397	\$ 4,322,601
E. Contributions as a percentage of covered-employee payroll	23.07%	19.98%

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1 – BUDGETARY COMPARISON SCHEDULES

Joseph K. Lumsden Bahweting Public School is not legally required to present budgetary information for capital project fund. Accordingly, the budgetary comparison schedules for the Capital Project fund is not required.

NOTE 2 - INFORMATION RELATED TO THE NET PENSION LIABILITY

Changes in benefits terms: There were no changes to benefit terms.

Changes of assumptions: There were no changes of benefit assumptions in the September 30, 2015 valuation.

ADDITIONAL INFORMATION

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL
TRUST AND AGENCY FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	Balance 07/01/15	Additions	Reductions	Balance 06/30/16
Student council	\$ 204	\$	\$	\$ 204
Service learning	1,009			1,009
Donation	815	1,129	1,390	554
Drum	5,749	903	72	6,580
Jump rope		3,176	3,176	
Sports	1,216			1,216
HSAT	1,344	1		1,345
Class of 2015	669		669	
Class of 2016	993	11,291	10,075	2,209
Class of 2017		1,181	1,262	(81)
K-5 fundraiser	230			230
Total	<u>\$ 12,229</u>	<u>\$ 17,681</u>	<u>\$ 16,644</u>	<u>\$ 13,266</u>



INDEPENDENT AUDITORS'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste Marie, Michigan

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Joseph K. Lumsden Bahweting Public School's basic financial statements and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Joseph K. Lumsden Bahweting Public School'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 Joseph K. Lumsden Bahweting Public School's internal control. Accordingly, we do not express an opinion on the effectiveness of Joseph K. Lumsden Bahweting Public School'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Traverse City, MI
September 28, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste Marie, MI

Report on Compliance for Each Major Federal Program

We have audited Joseph K. Lumsden Bahweting Public School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Joseph K. Lumsden Bahweting Public School's major federal programs for the year ended June 30, 2016. Joseph K. Lumsden Bahweting Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Joseph K. Lumsden Bahweting Public School'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 Joseph K. Lumsden Bahweting Public School'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 Joseph K. Lumsden Bahweting Public School's compliance.

Opinion on Each Major Federal Program

In our opinion, Joseph K. Lumsden Bahweting Public School 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 Joseph K. Lumsden Bahweting Public School 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 Joseph K. Lumsden Bahweting Public School'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 Joseph K. Lumsden Bahweting Public School'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.

Traverse City, MI
September 28, 2016

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Program Title/Project Number/ Subrecipient Name	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/15	Adjust- ments	Current Year Receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/16	Current Year Cash Transfers to Subrecipient
<i>Clusters:</i>										
Child Nutrition Cluster –										
U.S. Department of Agriculture										
Passed through Michigan Department of Education:										
Noncash Assistance (Commodities)-										
Bonus Commodities 2015-2016	10.555	N/A	\$ 12,044	\$	\$	\$	\$ 12,044	\$ 12,044	\$	\$
Cash Assistance-										
National School Lunch Program 2014-2015	10.555	151960	118,195	105,371	4,654		22,132	17,478		
National School Lunch Program 2015-2016	10.555	161960	121,082				121,082	121,082		
NSLP (including commodities) Subtotal	10.555		<u>251,321</u>	<u>105,371</u>	<u>4,654</u>		<u>155,258</u>	<u>150,604</u>		
National School Bkfast Program 2014-2015	10.553	151970	36,649	33,300	1,319		5,987	4,668		
National School Bkfast Program 2015-2016	10.553	161970	31,958				31,958	31,958		
National School Bkfast Program Subtotal	10.553		<u>68,607</u>	<u>33,300</u>	<u>1,319</u>		<u>37,945</u>	<u>36,626</u>		
Total Child Nutrition Cluster			<u>319,928</u>	<u>138,671</u>	<u>5,973</u>		<u>193,203</u>	<u>187,230</u>		
<i>Other federal awards:</i>										
U.S. Department of Interior										
Passed through U.S. Department of Interior, Bureau of Indian Affairs:										
Indian School Equalization Program	15.042	GTF60X50A6	3,893,800	1,942,971	435,801		1,948,570	1,943,379	430,610	
Operations/Maintenance	15.047	GTF60X50A6	873,145	419,656	24,619		386,654	408,156	46,121	
Transportation	15.044	GTF60X50A6	476,420	204,210			256,711	256,711		
Admin Cost Grant	15.046	GTF60X50A6	506,561	208,759	52,449		241,772	204,682	15,359	
Education Program Enhancements	15.151	GTF60X50A6	82,720	62,720	37,151		37,151			
National Board Orientation	15.151	156A2100DD	102,654				93,691	102,654	8,963	
Total U.S. Depart of Interior passed through Bureau of Indian Affairs			<u>5,935,300</u>	<u>2,838,316</u>	<u>550,020</u>		<u>2,964,549</u>	<u>2,915,582</u>	<u>501,053</u>	

Program Title/Project Number/ Subrecipient Name	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/15	Adjust- ments	Current year receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/16	Current Year Cash Transfers to Subrecipient
<i>Other federal awards (continued):</i>										
U.S. Department of Education										
Direct Awards										
Title VII-Indian Education	84.060	S060A021230	<u>76,736</u>	<u>70,885</u>			<u>67,574</u>	<u>76,686</u>	<u>9,112</u>	
Passed through U.S. Department of Interior, Bureau of Indian Affairs:										
Education of the Handicapped (IDEA)	84.027	GTF60X50A6	2,236,246	921,031	211,448	82	1,030,350	1,020,570	201,750	
Title IIA-Improving America's Schools Act	84.367	GTF60X50A6	156,770	78,770	13,492		79,756	78,000	11,736	
Title I-Improving America's Schools Act	84.010	GTF60X50A6	1,927,300	590,623	103,354		707,473	926,725	322,606	
Title VI	84.358	GTF60X50A6	6,980	3,560	3,560		3,560	3,420	3,420	
State Assessment	84.369	GTF60X50A6	<u>6,723</u>				<u>3,420</u>	<u>3,583</u>	<u>163</u>	
Total noncluster programs passed through USDI, Bureau of Indian Affairs			<u>4,334,019</u>	<u>1,593,984</u>	<u>331,854</u>	<u>82</u>	<u>1,824,559</u>	<u>2,032,298</u>	<u>539,675</u>	
<i>Other federal awards (continued):</i>										
Passed through Michigan Department of Education:										
Title IA-Improving Basic Programs	84.010A	615300809	232,262	110,245	22,271		99,190	120,127	43,208	
Title VI-Rural Education	84.358B	905200809	16,510	6,549			12,477	12,477		
Title IIA-Improving Teacher Quality	84.367A	905200809	<u>5,346</u>	<u>5,588</u>			<u>3,126</u>	<u>5,346</u>	<u>2,220</u>	
Total noncluster programs passed through Michigan Department of Education			<u>254,118</u>	<u>122,382</u>	<u>22,271</u>		<u>114,793</u>	<u>137,950</u>	<u>45,428</u>	
Total U.S. Department of Education			<u>4,664,873</u>	<u>1,787,251</u>	<u>354,125</u>	<u>82</u>	<u>2,006,926</u>	<u>2,246,934</u>	<u>594,215</u>	
Total Expenditures of Federal Awards			<u><u>\$ 10,920,101</u></u>	<u><u>\$ 4,764,238</u></u>	<u><u>\$ 910,118</u></u>	<u><u>\$ 82</u></u>	<u><u>\$ 5,164,678</u></u>	<u><u>\$ 5,349,746</u></u>	<u><u>\$ 1,095,268</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of this schedule

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Joseph K Lumsden Bahweting Public School and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the Uniform Guidance and reconciles with the amounts presented in the preparation of the basic financial statements.
2. ISEP CFDA #15.042 was audited as a major program, representing 36.32% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$750,000.
4. Management has utilized the Grant Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the basic financial statements:

General fund	\$ 5,162,516
Special revenue funds	<u>187,230</u>
 Total Federal Awards	 <u><u>\$ 5,349,746</u></u>

6. Joseph K Lumsden Bahweting Public School was determined to be a low-risk auditee.
7. Joseph K Lumsden Bahweting Public School did NOT elect to use the 10% de minimis indirect cost rate.

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I – Summary of Auditors’ Results

Financial statements

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit finding disclosed that are required to be reported under the Uniform Guidance? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
15.042	ISEP

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016
(Continued)**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL
SCHEDULE OF PRIOR AUDIT FINDINGS**

Section II – Financial Statement Findings

None



September 28, 2016

Board of Education
Joseph K. Lumsden Bahweting Public School
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Joseph K. Lumsden Bahweting Public Schools for the year ended June 30, 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 letter to you dated May 26, 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 Joseph K. Lumsden Bahweting Public Schools 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 governmental unit 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 Joseph K. Lumsden Bahweting Public School's financial statements were:

- Management's estimate of the liability of the payout of employee compensated absences is based on expected payout.
- Depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the amount of depreciation charged in determining that it is reasonable in relation to the financial statements taken as a whole.
- Estimates have been used to calculate net pension liability.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclose affecting the financial statement was:

- The disclosure of Michigan Public School Employees' Retirement System in Note 9 to the financial statements provides significant information regarding the Schools' pension liability.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, 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 September 28, 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI), which is 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 other supplementary information, 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.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Joseph K. Lumsden Bahweting Public School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Certified Public Accountants