RECEIVED
By Gloria Suggitt at 12:45 pm, Oct 18, 2016

SUPERIOR CENTRAL SCHOOL DISTRICT
EBEN JUNCTION, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

TABLE OF CONTENTS

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Superior Central School District
E2865 Highway M-94
Eben Junction, Michigan 49825

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 17, 2016

Superior Central School District

MANAGEMENT'S DISCUSSION AND ANAYLYSIS (UNAUDITED)

Our discussion and analysis of Superior Central School District (the School District) financial performance provides an overview of the School District's financial activities for the year ended June 30, 2016. Please read it in conjunction with the financial statements, which begin as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for the School District as a whole were reported at ($1,574,243) comprised of 100% governmental activities, a $287,255 or 15% increase from the prior year.
- During the year, the School District expenses were $3,892,801, while revenues from all sources totaled $4,180,056, resulting in an increase in net position of $287,255.
- The general fund reported an increase of $133. This is $6,535 lower than the final forecasted increase of $6,668. This was a result of revenues and other financing sources being $9,628 lower, and expenses being $3,093 lower than forecasted, all of which are immaterial when compared with budgeted revenues and transfers in of $3,321,045 and budgeted expenditures and transfers out of $3,314,377.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* Statement of Net Position and the Statement of Activities, as listed in the table of contents, provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail as listed in the table of contents. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant funds – as listed in the notes to the financial statements. All other funds are presented in one column as non-major funds. The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Our analysis of the School District as a whole begins below. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question.

These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and changes in it. The School District's net position – the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – is an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

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

Our analysis of the School District's major funds begins on the pages below. The fund financial statements, as listed in the table of contents, provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes.

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net position as of June 30, 2016 and 2015:

Table 1
Net Position

	Governmental Activities – 2016	Governmental Activities – 2015
Current and other assets	$2,218,512	$1,545,439
Capital assets, net	3,260,033	2,940,221
Total Assets	5,478,545	4,485,660
Deferred outflows of resources	552,201	580,981
Current liabilities	639,316	902,822
Long-term liabilities	6,896,034	5,584,638
Total Liabilities	7,535,350	6,487,460
Deferred inflows of resources	69,639	440,679
Net Position:		
Net investment in capital assets	1,020,033	1,676,908
Restricted	1,160,264	223,823
Unrestricted	(3,754,540)	(3,762,229)
Total Net Position	($1,574,243)	($1,861,498)

The School District's net position was ($1,574,243) at June 30, 2016. Net investment in capital assets totaling $1,020,033, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of $1,160,264 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations. The remaining amount of net position of ($3,754,540) was unrestricted.

The ($3,754,540) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal years 2016 and 2015.

Table 2
Statement of Activities

	Governmental Activities – 2016	Governmental Activities – 2015
Revenues:		
Program Revenues:		
Charges for services	$70,977	$81,479
Operating grants and contributions	817,785	838,214
Capital grants and contributions	-	-
General Revenues:		
Property taxes	1,205,937	1,309,968
State Aid not restricted to specific purposes	2,067,745	1,946,120
Investment earnings	607	885
Miscellaneous	17,005	9,167
Total Revenues	4,180,056	4,185,833
Expenses:		
Instruction	2,061,952	2,035,104
Supporting services	904,151	1,140,361
Community activities	-	-
Payments to other governmental agencies	-	-
Facilities acquisitions	-	-
Food service activities	184,176	175,911
School service activities	-	-
Interest on retirement of debt	53,752	80,651
Capital projects	541,559	12,960
Depreciation – unallocated	147,211	146,275
Total Expenses	3,892,801	3,591,262
Increase (decrease) in net position	287,255	594,571
Net position, beginning	(1,861,498)	-
Net Position, beginning, as restated	-	(2,456,069)
Net Position, Ending	($1,574,243)	($1,861,498)

As reported in the Statement of Activities, the cost of all of our governmental activities this year was $3,892,801. Certain activities were partially funded from those who benefited from the programs totaling $70,977 in charges for services or by other governments and organizations that subsidized certain programs with grants and categorical payments totaling $817,785. We paid for the remaining "public benefit" portion of our governmental activities with $1,205,937 in taxes, $2,067,745 in State Foundation Allowance, and $17,612 with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position for the year of $287,255.

Key reasons for the change in net position were as follows:

- Net change in governmental fund balances of $936,579.
- Depreciation charged to expense of ($147,211).
- Capital outlays in the amount of $467,023.
- Proceeds from bond issuance of ($1,441,092).

- Principal payment on debt in the amount of $448,525.
- Accrued interest on debt in the amount of ($5,212).
- Change in net pension liability of ($19,408).
- Change in compensated absences of $48,051.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$2,061,952	$1,488,740
Supporting services	904,151	766,089
Food service activities	184,176	6,688
Capital projects	541,559	541,559

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

<u>The School District's Funds</u>

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet as listed in the table of contents) reported a combined fund balance of $1,579,196, an increase of $936,579 from the beginning of the year.

The increase of $936,579 in the combined fund balance is the net effect of an increase in the General Fund Balance of $133, an increase in the Debt Service Fund Balance of $72,084, an increase in the 2016 Bond Debt Fund Balance of $21,092, a decrease in the Sinking Fund Balance of $25,902, an increase in the Tech and bus Fund Balance of $869,167, and an increase in the Capital Projects Fund Balance of $5.

<u>General Fund Budgetary Highlights</u>

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

Changes to the General Fund original budget occurred during the annual budget reviews in January and June 2016.

BUDGETED REVENUES

General Fund revenues changed from original to final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance Amount	Budget Variance Percent
Total	$3,129,905	$3,321,045	$191,140	6.11%

The increase in budgeted revenues of $191,140 was due to an increase in student count which increased State Aid revenue, the release of deferred 31A At-Risk funding and an increase in special education funding from MARESA. The district estimates the amount of grant funding at the beginning of the fiscal year, but the funds are not actually allotted until later in the year.

State aid revenues are often adjusted positively due to the actual enrollment exceeding the June projections.

BUDGETED EXPENDITURES

General Fund expenditures changed from the original to final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance Amount	Budget Variance Percent
Total	$3,303,358	$3,314,377	$11,019	0.33%

The minimal increase in expenditures was mainly attributable to some adjustments in staff after the year started with a much larger than anticipated kindergarten class.

ACTUAL REVENUES

The General Fund actual revenues differed from the final budget as follows:

	Final Budget	Actual	Budget Variance Amount	Budget Variance Percent
Total	$3,321,045	$3,316,220	($4,825)	(0.15%)

The actual revenues were less than the final forecast. The decrease came from state aid revenues in CTE funding.

ACTUAL EXPENDITURES

General Fund actual expenditures differed from the final budget as follows:

	Final Budget	Actual	Budget Variance Amount	Budget Variance Percent
Total	$3,314,377	$3,316,087	$1,710	(0.05%)

The general fund final budgeted expenditures were $3,314,377. The Board anticipates that approximately 1 to 3% of this amount will be unspent at the end of each fiscal year.

Enrollment

The School District's 2015-2016 State aid blended membership enrollment from the fall count totaled 352. This is an increase of three students from the previous year. The District has been steady in enrollment for several years and projects the trend to continue in coming years. The District is located in Michigan's Upper Peninsula, which is currently experiencing an economic downturn. This is the reason for the few years of declining enrollment.

Enrollment changes over the last five years can be illustrated as follows:

Fiscal Year	(Fall) Student FTE	Increase (Decrease) in Student Enrollment (FTE)
2015-2016	352	3
2014-2015	349	(5)
2013-2014	354	(3)
2012-2013	357	3
2011-2012	354	(22)

Student enrollment is important to the financial health of the School District because state funding is based on a per pupil formula.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016 and 2015, the School District had $3,260,033 and $2,940,221, respectively, invested in a variety of capital assets including land, buildings, and machinery and equipment. (See Table 4 below)

Table 4
Capital Assets at Year-End
(net of depreciation)

	Governmental Activities – 2016	Governmental Activities – 2015
Land	$62,439	$62,439
Construction-in-progress	7,463	-
Land improvements	30,015	32,211
Buildings	2,162,596	2,356,603
Building Improvements	706,039	525,193
Equipment	28,409	31,057
Vehicles and buses	263,072	32,718
Total	$3,260,033	$2,940,221

During the year the School District purchased three new busses and two new sewage pumps. They also made several building renovations throughout the year. The School District recorded depreciation expense of $147,211.

We anticipate capital additions for the 2016-2017 fiscal year will be comprised of additional equipment. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2016 and 2015, the School District had bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities – 2016	Governmental Activities – 2015
General obligation bonds	$2,240,000	$1,263,313
Notes payable	-	-
Total	$2,240,000	$1,263,313

The School District issued a new bond in the current year in the amount of $1,420,000. The School District made principal payments totaling $448,525 during the year. We present more detailed information about our long-term debt in the notes in the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2016-2017 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2016-2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2016. Approximately 79 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations, which approximates 4 percent of total revenues. As a result, the district funding is heavily dependent on the State's ability to fund local school operations.

Uncertainty about the amount of State revenues has a negative impact on financial planning. The School District is often several months into its new fiscal year before the State revenue levels are finalized.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superior Central School District, E2865 Highway M-94, Eben Junction, Michigan 49825.

Superior Central School District

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,709,568
Investments	-
Receivables:	
Accounts receivable	-
Delinquent property taxes	-
Due from other governmental units	507,905
Inventories	1,039
Prepaid expense	-
Non-current Assets:	
Land and construction in progress	69,902
Other capital assets, net	3,190,131
TOTAL ASSETS	5,478,545
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to proportionate share of net pension liability	130,443
District's contributions made subsequent to pension measurment date	421,758
TOTAL DEFERRED OUTFLOWS OF RESOURCES	552,201
LIABILITIES	
Current Liabilities:	
Accounts payable	110,843
Accrued liabilities	228,473
State aid note payable	300,000
Non-current Liabilities:	
Portion due or payable within one year	
Notes payable	-
Bonds payable	360,000
Portion due or payable after one year	
Notes payable	-
Bonds payable	1,880,000
Bond premium	21,092
Employee benefits payable	287,043
Proportionate share of net pension liability	4,347,899
TOTAL LIABILITIES	7,535,350
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows to proprotionate share of net pension liability	69,639
TOTAL DEFERRED INFLOWS OF RESOURCES	69,639
NET POSITION	
Net investment in capital assets	1,020,033
Restricted	1,160,264
Unrestricted	(3,754,540)
TOTAL NET POSITION	$ (1,574,243)

The accompanying notes are an integral part of these financial statements.

Superior Central School District

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Function / Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:					
Instruction	$ 2,061,952	$ -	$ 573,212	$ -	$ (1,488,740)
Supporting services	904,151	24,077	113,985	-	(766,089)
Community service	-	-	-	-	-
Payments to other governmental agencies	-	-	-	-	-
Facilities acquisitions	-	-	-	-	-
Food service activities	184,176	46,900	130,588	-	(6,688)
Public library activities	-	-	-	-	-
Interest on retirement of debt	53,752	-	-	-	(53,752)
Capital projects	541,559	-	-	-	(541,559)
Depreciation - unallocated	147,211	-	-	-	(147,211)
TOTAL GOVERNMENTAL ACTIVITIES	$ 3,892,801	$ 70,977	$ 817,785	$ -	(3,004,039)

General revenues:	
Taxes	
Property taxes, levied for general purposes	519,740
Property taxes, levied for debt services	502,933
Property taxes, levied for capital projects	183,264
State aid not restricted to specific purposes	2,067,745
Interest and investment earnings	607
Miscellaneous	17,005
TOTAL GENERAL REVENUES	3,291,294
CHANGES IN NET POSITION	287,255
Net Position, July 1	(1,861,498)
NET POSITION, JUNE 30	$ (1,574,243)

The accompanying notes are an integral part of these financial statements.

Superior Central School District

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2016

			Debt Service Funds			Capital Project Funds		
	General Fund	**School Lunch Fund**	**Debt Service Fund**	**2016 Bond Debt Fund**	**Sinking Fund**	**Tech & Bus Fund**	**Capital Projects Fund**	**Total**
ASSETS								
Cash and cash equivalents	$ 443,991	97,484	$ 111,790	$ 21,092	$ 157,176	$ 872,250	$ 5,785	$ 1,709,568
Investments	-	-	-	-	-	-	-	-
Receivables:								
Accounts receivable	-	-	-	-	-	-	-	-
Delinquent property taxes	-	-	-	-	-	-	-	-
Due from other governmental units	506,394	1,511	-	-	-	-	-	507,905
Due from other funds	120,719	18,694	-	-	-	-	-	139,413
Inventories	-	1,039	-	-	-	-	-	1,039
Prepaid expense	-	-	-	-	-	-	-	-
TOTAL ASSETS	1,071,104	118,728	111,790	21,092	157,176	872,250	5,785	2,357,925
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,071,104	118,728	$ 111,790	$ 21,092	$ 157,176	$ 872,250	$ 5,785	$ 2,357,925
LIABILITIES								
Accounts payable	$ 98,662	$ 53	$ -	$ -	$ -	$ -	$ -	$ 98,715
Accrued liabilities	228,473	-	-	-	-	-	-	228,473
Due to other funds	30,822	117,636	-	-	-	3,083	-	151,541
State aid note payable	300,000	-	-	-	-	-	-	300,000
TOTAL LIABILITIES	657,957	117,689	-	-	-	3,083	-	778,729
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-	-	-
FUND BALANCES								
Non-spendable	-	1,039	-	-	-	-	-	1,039
Restricted	-	-	111,790	21,092	157,176	869,167	-	1,159,225
Committed	-	-	-	-	-	-	-	-
Assigned	154,176	-	-	-	-	-	5,785	159,961
Unassigned	258,971	-	-	-	-	-	-	258,971
TOTAL FUND BALANCES	413,147	1,039	111,790	21,092	157,176	869,167	5,785	1,579,196
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 1,071,104	$ 118,728	$ 111,790	$ 21,092	$ 157,176	$ 872,250	$ 5,785	$ 2,357,925

The accompanying notes are an integral part of these financial statements.

Superior Central School District

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2016

Total Fund Balances for Governmental Funds		$ 1,579,196
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of capital assets	$ 7,137,361	
Accumulated depreciation	(3,877,328)	3,260,033
Net pension liability is not due and payable in the current period and is not reported in the funds.		
Proportionate share of net pension liability	4,347,899	
Deferred outflows related to proportionate share of net pension liability	(130,443)	
Deferred outflows made subsequent to pension measurement date	(421,758)	
Deferred inflows related to proportionate share of net pension liability	69,639	(3,865,337)
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:		
Notes payable - current	-	
Bonds payable - current	360,000	
Notes payable - long term	-	
Bonds payable - long term	1,880,000	
Bond premium	21,092	
Employee benefits payable	287,043	(2,548,135)
Net Position of Governmental Activities		$ (1,574,243)

Superior Central School District

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2016

	General Fund	School Lunch Fund	Debt Service Fund	2016 Bond Debt Fund	Sinking Fund	Tech & Bus Fund	Capital Projects Fund	Total
REVENUES:								
Local sources	$ 565,946	$ 46,900	$ 503,079	$ -	$ 183,264	$ -	$ 5	$ 1,299,194
State sources	2,467,745	8,978	-	-	-	-	-	2,476,723
Federal sources	104,736	121,610	-	-	-	-	-	226,346
TOTAL REVENUES	3,138,427	177,488	503,079	-	183,264	-	5	4,002,263
EXPENDITURES:								
Instruction	2,096,305	-	-	-	-	-	-	2,096,305
Supporting services	1,147,409	-	-	-	-	-	-	1,147,409
Community services	-	-	-	-	-	-	-	-
Payments to other governmental agencies	-	-	-	-	-	-	-	-
Facilities acquisitions	-	-	-	-	-	-	-	-
School lunch activities	-	183,791	-	-	-	-	-	183,791
Debt Service:								
Principal	50,000	-	392,226	-	-	-	-	442,226
Interest	16,070	-	38,303	-	-	-	-	54,373
Other	-	-	466	-	-	-	-	466
Capital Projects:								
Capital outlay	-	-	-	-	199,600	510,010	-	709,610
Other	-	-	-	-	9,566	40,823	-	50,389
TOTAL EXPENDITURES	3,309,784	183,791	430,995	-	209,166	550,833	-	4,684,569
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(171,357)	(6,303)	72,084	-	(25,902)	(550,833)	5	(682,306)
OTHER FINANCING SOURCES (USES):								
Proceeds from borrowing	-	-	-	-	-	1,420,000	-	1,420,000
Premium on bond issurance	-	-	-	-	-	21,092	-	21,092
Transfers from other governmental units	177,793	-	-	-	-	-	-	177,793
Transfers in	-	6,303	-	21,092	-	-	-	27,395
Transfers (out)	(6,303)	-	-	-	-	(21,092)	-	(27,395)
TOTAL OTHER FINANCING SOURCES (USES)	171,490	6,303	-	21,092	-	1,420,000	-	1,618,885
NET CHANGE IN FUND BALANCES	133	-	72,084	21,092	(25,902)	869,167	5	936,579
Fund balance, July 1	413,014	1,039	39,706	-	183,078	-	5,780	642,617
FUND BALANCE, JUNE 30	$ 413,147	$ 1,039	$ 111,790	$ 21,092	$ 157,176	$ 869,167	$ 5,785	$ 1,579,196

The accompanying notes are an integral part of these financial statements.

Superior Central School District

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds		$ 936,579
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Depreciation expense	$ (147,211)	
Capital outlays - facilities acquisition	218,440	
Capital outlays - supporting services	248,583	
Capital outlays - instruction	-	
Net book value of disposed assets	-	319,812
Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.		(1,420,000)
Governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. This is the effect of these differences in the treatment of long-term debt.		(21,092)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		448,525
Interest on long-term debt is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of accrued interest recognized in the statement of activities.		(5,212)
Increase in net pension liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it comes due for payment.		
Pension expense	(19,408)	
Change in deferred outflows related to timing of pension contributions	-	(19,408)
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		48,051
Change in Net Position of Governmental Activities		$ 287,255

The accompanying notes are an integral part of these financial statements.

Superior Central School District

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	Agency Funds Student Activity Fund
ASSETS:	
Cash and equivalents	$ 100,277
Due from other funds	12,128
TOTAL ASSETS	$ 112,405
LIABILITIES:	
Due to groups, organizations and activities	$ 112,405
Due to other funds	-
TOTAL LIABILITIES	$ 112,405

The accompanying notes are an integral part of these financial statements.

NOTE A – THE FINANCIAL REPORTING ENTITY:

Superior Central School District (the School District) operates under an elected Board of Education of seven members, which are elected across the School District to establish programs and policies.

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the School District contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type.

The School District reports the General Fund, the School Lunch Fund, Debt Service Fund, 2016 Bond Debt Fund, Sinking Fund, Tech and Bus Fund, and Capital Projects Fund as its major governmental funds in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue fund for the School District is the School Lunch Fund.

Debt Service Funds – The Debt Service Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – The Capital Projects Funds are used to account for the receipt and disbursement of monies used for the acquisition of capital assets, including land, buildings, and equipment. Principal sources of revenues are from the sale of bonds, tax levies, and earned interest. Unexpended resources no longer needed on projects for which the bonds were originally approved generally must be transferred to the Debt Service Fund.

Fiduciary Funds

Trust and Agency Fund – The Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District will first apply restricted net position for expenses incurred for purposes for which both restricted and unrestricted net position is available.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the fiduciary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Cash Equivalents
The School District cash and cash equivalents as reported in the Statement of Net Position are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less. The fair value measurements of investments is based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset’s fair value.

Investments
Investments are carried at market value.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Receivables
All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds
Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory
Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventories recorded in the General Fund consist of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets
Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land improvements	15-20 years
Buildings and improvements	20-50 years
Equipment	5-10 years
Vehicle and buses	5-10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Deferred Outflows of Resources
In addition to assets, the statement of financial position 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category:

> On the district-wide financial statements, changes in assumptions, differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions for the pension plan create a deferred outflow of resources.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

> On the district-wide financial statements, the School District's contributions made into the pension plan subsequent to the plan's fiscal year end creates a deferred outflow of resources.

State Anticipation Note
The School District issued notes through the Michigan Municipal Bond Authority for cash flow purposes. The School District has pledged a portion of their state aid to repay the principal and interest on the notes. Furthermore, the School District has irrevocably pledged its full faith and credit in case of the insufficiency of the pledged state aid.

Long-Term Debt
In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line amortization. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses.

Compensated Absences
The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Inflows of Resources
In addition to liabilities, the statement of net position and governmental funds 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 government has one item that qualifies for reporting in this category:

> On the district-wide financial statements, the net difference between projected and actual pension plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred inflow of resources.

Equity Classification
District-Wide Statements

Equity is classified as net position and displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

2. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

regulations of other governments; or (2) law through constitutional provisions of enabling legislation. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.

3. Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Governmental Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned, if appropriate.

<u>Revenues</u>
District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either program revenue or general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

<u>Property Taxes</u>
Property taxes are levied on July 1 and December 1, on behalf of the School District by various taxing units and are payable without penalty by February 28. The School District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.) Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

<u>Expenses/Expenditures</u>
District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity
As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position.

Budgets and Budgetary Accounting
The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

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

b. Public hearings are conducted to obtain taxpayer comments.

c. Prior to July 1, the budget is approved by the Board of Education.

d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.

e. All annual appropriations lapse at fiscal yearend.

Use of Estimates
The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events
Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 17, 2016, the date of the accompanying independent auditor’s report, which is the date the financial statements were available to be issued.

NOTE C – DEPOSITS AND INVESTMENTS:

Cash Equivalents
As of June 30, 2016, the School District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	$1,709,568	$100,277	$1,809,945
Investments	-	-	-
Total	$1,709,568	$100,277	$1,809,945

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. State law does not require and the School does not have a deposit policy for custodial credit risk. The carrying amounts of the School's deposits with financial institutions were $1,809,945 and the bank balance was $1,913,244. The bank balance is categorized as follows.

Amount insured by the FDIC	$250,000
Amount uncollateralized and uninsured	1,663,244
Total	$1,913,244

Investments
Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the School District had no investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School District's investments The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the School District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

The School District has no investment policy that would further limit its investment choices. Ratings are not required for the School District's investment in Treasury Notes. The School District's investments are in accordance with statutory authority.

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments totaled $507,905. Of that balance $441,339 is due from the State of Michigan for State Aid and $66,566 due from other governmental units for the operation of special programs and grant projects.

NOTE E – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The School District reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net position and the balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows:

DUE TO OTHER FUNDS		DUE FROM OTHER FUNDS			
		General Fund	School Lunch Fund	Agency Funds	Total Due To Other Funds
	General Fund	$-	$18,694	$12,128	$30,822
	School Lunch Fund	117,636	-	-	117,636
	Tech & Bus Bond Fund	3,083	-	-	3,083
	Total Due From Other Funds	$120,719	$18,694	$12,128	$151,541

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. See table below.

TRANSFERS OUT TO OTHER FUNDS		TRANSFERS IN FROM OTHER FUNDS			
		General Fund	School Lunch Fund	Debt Service Funds	Total Transfers Out To Other Funds
	General Fund	$-	$6,303	$-	$6,303
	School Lunch Fund	-	-	-	-
	Tech & Bus Fund	-	-	21,092	21,092
	Total Transfers In From Other Funds	$-	$6,303	$21,092	$27,395

NOTE E – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE F – CAPITAL ASSETS:

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	$62,439	$-	$-	$62,439
Construction in progress	-	7,463	-	7,463
Capital assets being depreciated:				
Land improvements	120,802	-	-	120,802
Buildings	5,325,241	-	-	5,325,241
Building improvements	603,821	210,977	-	814,798
Equipment	335,355	-	-	335,355
Vehicles and buses	222,680	248,583	-	471,263
Total Capital Assets	6,670,338	467,023	-	7,137,361
Less accumulated depreciation:				
Land improvements	(88,591)	(2,196)	-	(90,787)
Buildings	(3,068,638)	(94,007)	-	(3,162,645)
Building improvements	(78,628)	(30,131)	-	(108,759)
Equipment	(304,298)	(2,648)	-	(306,946)
Vehicle and buses	(189,962)	(18,229)	-	(208,191)
Total Accumulated Depreciation	(3,730,117)	(147,211)	-	(3,877,328)
Governmental Activities Capital Assets, Net	$2,940,221	$319,812	$-	$3,260,033

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	$147,211
Total Governmental Activities Depreciation Expense	$147,211

NOTE G – ACCRUED LIABILITIES:

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

	Governmental Activities
Accrued wages	$213,371
Accrued fringes	5,916
Other accruals	9,186
Total	$228,473

NOTE H – STATE AID NOTE PAYABLE:

The School District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
State Aid Note Payable					
2014-2015	$556,160	$-	$556,160	$-	$-
2015-2016	-	300,000	-	300,000	300,000
TOTAL LONG-TERM DEBT	$556,160	$300,000	$556,160	$300,000	$300,000

NOTE I – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2016, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
School Bond Loan Fund	$243,313	$5,212	$248,525	$-	$-
Refunding Bonds – 2003	770,000	-	150,000	620,000	140,000
Energy Project Bond – 2010	250,000	-	50,000	200,000	50,000
2016 Tech and Bus Bond	-	1,420,000	-	1,420,000	170,000
2016 Bond Premium	-	21,092	-	21,092	-
Subtotal	1,263,313	1,446,304	448,525	2,261,092	360,000
Employee Benefits	335,094	14,646	62,697	287,043	-
TOTAL LONG-TERM DEBT	$1,598,407	$1,460,950	$511,222	$2,548,135	$360,000

Refunding Bonds - 2003
June 30, 2016

	Nov 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2017	$12,095	$12,095	$140,000	$164,190
2018	9,435	9,435	165,000	183,870
2019	6,300	6,300	160,000	172,600
2020	3,100	3,100	155,000	161,200
Total	$30,930	$30,930	$620,000	$681,860

The Refunding Bonds were originally issued for $3,085,000 in 2003. The bond payments are due semi-annually on November 1 (interest) and May 1 (principal and interest), with an interest rate of 3.2%-4.0%.

NOTE I – LONG-TERM OBLIGATIONS (Continued):

Energy Project Bond - 2010
June 30, 2016

	Nov 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2017	$5,100	$5,100	$50,000	$60,200
2018	3,900	3,900	50,000	57,800
2019	2,650	2,650	50,000	55,300
2020	1,350	1,350	50,000	52,700
Total	$13,000	$13,000	$200,000	$226,000

The Energy Project Bonds were originally issued for $450,000 on July 15, 2010. The bond payments are due semi-annually on November 1 (interest) and May 1 (principal and interest), with an interest rate of 2.0%-5.4%.

Technology and Bus Bond - 2016
June 30, 2016

	Nov 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2017	$20,590	$14,200	$170,000	$204,790
2018	12,500	12,500	155,000	180,000
2019	10,950	10,950	170,000	191,900
2020	9,250	9,250	185,000	203,500
2021	7,400	7,400	245,000	259,800
2022-2023	7,450	7,450	495,000	509,900
Total	$68,140	$61,750	$1,420,000	$1,549,890

The Technology and Bus Bond was originally issued for $1,420,000 on February 10, 2016. The bond payments are due semi-annually on November 1 (interest) and May 1 (principal and interest), with an interest rate of 2.0%.

As of June 30, 2016 the aggregate maturities of long-term debt are as follows:

Fiscal Year	Principal	Interest	Total
2017	$360,000	$69,180	$429,180
2018	370,000	51,670	421,670
2019	380,000	39,800	419,800
2020	390,000	27,400	417,400
2021	245,000	14,800	259,800
2022-2023	495,000	14,900	509,900
Total	$2,240,000	$217,750	$2,457,750

NOTE J – EMPLOYEE BENEFITS – COMPENSATED ABSENCES:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. Teachers meeting the requirements for retirement are paid a per day allowance, in accordance with the union agreement, at the time of retirement times the number of accumulated unused sick leave, using a maximum of 150 days. Support staff meeting the requirements for retirement are paid a percentage of the employee's daily rate, in accordance with the union agreement, at the time of retirement times the number of accumulated unused sick leave, using a maximum of 150 days.

NOTE J – EMPLOYEE BENEFITS – COMPENSATED ABSENCES (Continued):

As of June 30, 2016 the liability for employee benefits as reported in the statement of net position is as follows:

Sick leave		$205,344
Vacation leave		14,206
Retirement		67,493
	Total	$287,043

NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS:

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

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

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

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the School District's adopted policy, only the Board of Education or the School District's finance committee may assign amounts for specific purposes. The finance committee may assign amounts only up to $500,000 for a specific purpose. However, all such assignments can be made only with unanimous approval of all committee members.

Unassigned — all other spendable amounts.

As of June 30, 2016, fund balances are composed of the following:

	General Fund	School Lunch Fund	Debt Service Fund	2016 Bond Debt Fund	Sinking Fund	Tech & Bus Fund	Capital Projects Fund	Total Governmental Funds
Non-spendable:								
Inventories	$-	$1,039	$-	$-	$-	$-	$-	$1,039
Restricted:								
Debt Service	-	-	111,790	21,092	-	-	-	132,882
Capital Projects	-	-	-	-	157,176	869,167	-	1,026,343
Assigned:								
Capital Projects FY16/17	-	-	-	-	-	-	5,785	5,785
Budgeted Shortfall	154,176	-	-	-	-	-	-	154,176
Unassigned	258,971	-	-	-	-	-	-	258,971
Total Fund Balances	$413,147	$1,039	$111,790	$21,092	$157,176	$869,167	$5,785	$1,579,196

NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board of Education through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

NOTE L – ECONOMIC DEPENDENCY:

The School District received approximately 68 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Superior Central School District. The School District's Foundation Allowance is set by the state and includes the local contribution from Non Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

NOTE M – STATE REVENUE:

The State of Michigan currently uses 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 districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on the weighted average of pupil membership counts taken in October and February.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2015 – August 2016.

The School District 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.

NOTE N – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized $9,866 during fiscal 2016 in revenues and expenditures for USDA commodities.

NOTE O – PROPERTY TAXES:

The taxable value of real and personal property located in the School District for the 2015 tax year, totaled $71,749,799 (consisting of $42,673,225 for PRE, $-0- for Industrial Personal Property, $28,810,774 for Non-PRE and $265,800 for Commercial Personal Property). The tax for the year was based on a rate of 18 mills on the Non-homestead property, 6 mills on the Commercial Personal Property, 6.6 mills on all property types for Debt Retirement and 2.5 mills on all property types for the Sinking Fund. One mill is equal to $1.00 per $1,000 of taxable value.

NOTE P – CONTINGENT LIABILITIES:

Grant Assistance
The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management
The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $500,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description

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

The 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.

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

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. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. 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 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.

Pension Contribution Rates

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%

Required contributions to the pension plan from the District were $343,404 for the year ended September 30, 2015.

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

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

At June 30, 2016, the District reported a liability of $4,347,899 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 District'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 District's proportion was .017801 percent, which was a decrease of .000299 percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $352,949**.** At June 30, 2016, the District 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 actual and expected experience	$-	($14,402)
Changes of assumptions	107,054	-
Net difference between projected and actual earnings on pension plan investments	22,193	-
Changes in proportion and differences between the District contributions and proportionate share of contributions	1,196	(55,237)
Subtotal	130,443	(69,639)
District contributions subsequent to the measurement date	421,758	-
Total	$552,201	($69,639)

$421,758 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow by Year (to Be Recognized in Future Pension Expenses)

Plan Year Ended September 30	Amount
2016	($2,341)
2017	(2,341)
2018	(8,148)
2019	73,634
Total	$60,804

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

During the fiscal year, the School District recognized revenue in the amount of $171,249 from the State for the unfunded actuarial accrued liability.

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 Plans (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.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report. (www.michigan.gov/mpsers-cafr)

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

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

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%	

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

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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
$5,605,556	$4,347,899	$3,287,642

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPSERS CAFR.

(www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf)

Payables to the Michigan Public Schools Employees' Retirement System (MPSERS)

At June 30, 2016, the District reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS:

Employees of the School District who began working for a Michigan public school July 1, 2010, or later, are members of the Pension Plus plan or Defined Contribution (DC) plan, defined contribution pension plans. Under Public Act 300 of 2012, eligible members of MPSERS had the option to increase, maintain, or stop their contributions to the pension fund as of the transition date. Members of MPSERS who elected to stop their contributions became participants in the DC plan as of their transition date.

<u>Pension Plus Plan</u>
The Pension Plus Plan is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS. Within the plan employees have three options to choose from: 1) Pension Plus with Premium Subsidy, 2) Pension plus to DC with PHF, and 3) Basic/MIP to DC with Premium Subsidy. The School District's required to contribute ranges 1% to 4% of annual salary for plan members based on the type of plan the employee is participating in. Employees are permitted to make contributions up to applicable Internal Revenue Service Code limits. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits from the Plan in accordance with IRS regulations for 401(k) plans.

<u>Defined Contribution Plan</u>
The Defined Contribution Plan, is a defined contribution plan under sections 401(k) and section 457 of the Internal Revenue Code and is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS. Employee contributions are 8% of wages with the employer matching contributions dollar for dollar on the first 2% of wages and 50 cents on the dollar on the next 6% of wages. Employee contributions are made into the 457 Plan while employer matching contributions are made in other 401(k) Plan. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits and make contributions to the Plan in accordance with IRS regulations for 401(k) and 457 plans.

<u>Contributions</u>
The total amount contributed to the Plan for the year ended June 30, 2016 was $13,698 which consisted of $3,521 from the School District and $10,177 from employees.

NOTE S – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS:

Post-Employment Benefits
Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 2.71% (of the total 25.78% required contribution) of covered payroll for the period from July 1, 2015 through September 30, 2015 and 6.83% (of the total 25.78% required contribution) from October 1, 2015 through June 30, 2016. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at http://www.michigan.gov/orsschools, or by writing to the Office of Retirement System at 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909.

NOTE T – SINGLE AUDIT:

The School District's audited financial statements report a total of $226,346 in Federal expenditures. As this amount is less than the single audit threshold of $750,000, the School District is not required to have an audit in accordance with the Uniform Guidance for the fiscal year ended June 30, 2016.

NOTE U – SINKING FUNDS:

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE V – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements
In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes. This Statement is effective for periods beginning after June 15, 2015. The adoption of GASB No. 72 does not have any impact on the District's financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for periods beginning after June 15, 2015. The adoption of GASB No. 76 does not have any impact on the District's financial statements.

NOTE V – NEW GASB STANDARDS (Continued):

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement is effective for periods beginning after June 15, 2016. The adoption of GASB No. 82 does not have any impact on the District's financial statements.

<u>Other Recently Issued Accounting Pronouncements</u>
In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. GASB No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes. This Statement is effective for periods beginning after June 15, 2015. The District does not have any pension plans that meet the criteria of GASB 73.

In December 2015, the GASB issued Statement No. 79*, Certain External Investment Pools and Pool Participants*. GASB No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement is effective for periods beginning after June 15, 2015. The District does not have any external investment pools; therefore, GASB 79 is not applicable to the District.

NOTE W – UPCOMING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District.

<u>GASB 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</u>
Effective for fiscal years beginning after June 15, 2016 (District's fiscal year 2017)

NOTE W – UPCOMING STANDARDS (Continued):

This standard replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* as amended, Statement 43, and Statement No. 50, *Pension Disclosures.*

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet certain criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

<u>GASB 75: Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</u>
Effective for fiscal years beginning after June 15, 2017 (District's fiscal year 2018)

This standard replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB 75 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The particular accounting and financial reporting requirements and footnote disclosures are dependent upon the type of plan being used (defined benefit, defined contribution, or special funding situations) and whether the OPEB plans are administered through trusts meeting certain criteria.

<u>GASB 77: Tax Abatement Disclosures</u>
Effective for fiscal years beginning after December 15, 2015 (District's fiscal year 2017)

This standard requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the

NOTE W – UPCOMING STANDARDS (Continued):

government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Governments will be required to disclose information about tax abatement agreements including the taxes being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanisms by which taxes ae abated, provisions for recapturing abated taxes, and the types of commitments being made by tax abatement recipients. Additionally the gross dollar amount of taxes abated during the period will have to be disclosed along with any other commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

GASB 78: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension plans
Effective for fiscal years beginning after December 15, 2015 (District's fiscal year 2017)

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB 80: Blending Requirements for Certain Component Units – an Amendment to GASB Statement No. 14
Effective for fiscal years beginning after June 15, 2016 (District's fiscal year 2017)

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB 81: Irrevocable Split-Interest Agreements
Effective for fiscal years beginning after December 15, 2016 (District's fiscal year 2018)

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

REQUIRED SUPPLEMENTAL INFORMATION

Superior Central School District

SCHEDULE OF THE SUPERIOR CENTRAL SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Fiscal Year Ended June 30

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily required contributions	$ 510,436	$ 516,460								
Contributions in relation to statutorily required contributions	510,436	516,460								
Contributions deficiency (excess)	$ -	$ -								
District's covered-employee payroll	$ 1,488,974	$ 1,571,034								
Contributions as a percentage of covered-employee payroll	34%	33%								

Superior Central School District

SCHEDULE OF THE SUPERIOR CENTRAL SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Plan Year Ended September 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of net pension liability	0.01810%	0.01780%								
District's proportionate share of net pension liability	$ 3,986,231	$ 4,347,899								
District's covered-employee payroll	$ 1,561,071	$ 1,504,582								
District's proportionate share of net pension liability as a percentage of covered-employee payroll	255.35%	288.98%								
Plan fiduciary net position as a percentage of total pension liability	66.20%	65.17%								

Superior Central School District

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (GAAP Basis)	Variances Positive (Negative) Original Budget to Final Budget	Variances Positive (Negative) Final Budget to Actual
REVENUES:					
Local sources	$ 562,985	$ 563,935	$ 565,946	$ 950	$ 2,011
State sources	2,305,768	2,473,456	2,467,745	167,688	(5,711)
Federal sources	104,152	105,864	104,736	1,712	(1,128)
TOTAL REVENUES	2,972,905	3,143,255	3,138,427	170,350	(4,828)
EXPENDITURES:					
Instruction:					
Basic programs	1,628,960	1,673,685	1,695,591	(44,725)	(21,906)
Added needs	388,271	393,941	400,714	(5,670)	(6,773)
Total Instruction	2,017,231	2,067,626	2,096,305	(50,395)	(28,679)
Supporting Services:					
Pupil services	35,843	22,416	23,186	13,427	(770)
Instructional staff	17,600	18,165	17,144	(565)	1,021
General administration	101,774	111,342	102,295	(9,568)	9,047
School administration	245,756	250,105	245,310	(4,349)	4,795
Fiscal services	128,259	123,103	120,883	5,156	2,220
Operation and maintenance	283,012	272,004	271,090	11,008	914
Pupil transportation	283,634	276,657	265,075	6,977	11,582
Non instructional technology services	48,901	51,658	48,543	(2,757)	3,115
Athletic activities	50,473	53,731	53,883	(3,258)	(152)
Total Supporting Services	1,195,252	1,179,181	1,147,409	16,071	31,772
Other Functions:					
Community service	-	-	-	-	-
Custody and care of children	-	-	-	-	-
Total Other Functions	-	-	-	-	-
Payments to Other Governments:					
Payment to other schools	-	-	-	-	-
Total Payments to Other Government Agencies	-	-	-	-	-
Debt Service:					
Principal	50,000	50,000	50,000	-	-
Interest	16,070	16,070	16,070	-	-
Total Debt Service	66,070	66,070	66,070	-	-
Facilities Acquisition					
Capital outlay	-	-	-	-	-
Total Facilities Acquisition	-	-	-	-	-
TOTAL EXPENDITURES	3,278,553	3,312,877	3,309,784	(34,324)	3,093
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(305,648)	(169,622)	(171,357)	136,026	(1,735)
OTHER FINANCING SOURCES (USES):					
Transfers from other governmental units	157,000	177,790	177,793	20,790	3
Transfers in	-	-	-	-	-
Transfers (out)	(24,805)	(1,500)	(6,303)	23,305	(4,803)
TOTAL OTHER FINANCING SOURCES (USES)	132,195	176,290	171,490	44,095	(4,800)
NET CHANGE IN FUND BALANCE	(173,453)	6,668	133	180,121	(6,535)
Fund balance, July 1	413,014	413,014	413,014	-	-
FUND BALANCE, JUNE 30	$ 239,561	$ 419,682	$ 413,147	$ 180,121	$ (6,535)

Superior Central School District

SCHOOL LUNCH FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
School lunch activities	$ 46,558	$ 46,558	$ 46,900	$ -	$ 342
State aid	8,308	8,308	8,978	-	670
Federal sources	120,723	120,723	121,610	-	887
TOTAL REVENUES	175,589	175,589	177,488	-	1,899
EXPENDITURES:					
School lunch activities:					
Salaries	44,114	44,114	44,114	-	-
Fringe benefits	30,301	30,301	30,302	-	(1)
Purchased services	982	982	1,125	-	(143)
Other costs	6,108	6,108	6,615	-	(507)
Food and milk	86,483	86,483	91,769	-	(5,286)
Capital outlay	-	-	-	-	-
Donated commodities	9,024	9,024	9,866	-	(842)
Total Debt Service	177,012	177,012	183,791	-	(6,779)
TOTAL EXPENDITURES	177,012	177,012	183,791	-	(6,779)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,423)	(1,423)	(6,303)	-	(4,880)
OTHER FINANCING SOURCES (USES):					
Transfers in	1,423	1,423	6,303	-	4,880
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,423	1,423	6,303	-	4,880
NET CHANGE IN FUND BALANCE	-	-	-	-	-
Fund balance, July 1	1,039	1,039	1,039	-	-
FUND BALANCE, JUNE 30	$ 1,039	$ 1,039	$ 1,039	$ -	$ -

COMPLIANCE SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

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

To the Board of Education of the
Superior Central School District
E2865 Highway M-94
Eben Junction, Michigan 49825

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Superior Central School District (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies (Item 2016-001 – 2016-002).

Compliance and Other Matters

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

Superior Central School District's Response to Findings

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

Purpose of this Report

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 17, 2016

COMMUNICATIONS SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Superior Central School District
Report to Management
For the Year Ended June 30, 2016

To the Board of Education of the
Superior Central School District
E2865 Highway M-94
Eben Junction, Michigan 49825

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Superior Central School District (the School District) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in internal control to be significant deficiencies:

SIGNIFICANT DEFICIENCIES

2016-001 – SEGREGATION OF DUTIES (REPEAT):

Condition/Criteria: The accounting staff of the School District is made up of one individual, which does not allow for segregation of duties.

Effect: Because of the limited staff, there is an increased chance that misstatements in financial statements would not be prevented or detected on a timely basis.

Cause of Condition: The size of the organization's accounting staff precludes certain internal design controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
  - Teri Lintula, Business Manager
- Corrective Action Planned:
  - The Board of Education closely monitors all payments and reviews the financial statements on a month basis.
- Anticipated Completion Date:
  - Not Applicable

2016-002–ASSISTANCE IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES (REPEAT):

Condition/Criteria: Statement on Auditing Standards #115 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Cause of Condition: The staff of the School District did not have adequate staffing to prepare all the information included in the annual financial statements.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with generally accepted accounting principles.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
  - Teri Lintula, Business Manager
- Corrective Action Planned:
  - Management anticipates that this practice will continue as a needed service. Our staffing will not change and assistance is needed to complete all the requirements of the annual audit.
- Anticipated Completion Date:
  - Not Applicable

Board of Education of the
Superior Central School District

The School District's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Education, and others within the School District, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 17, 2016

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
"A Regional Firm With Offices In Michigan And Wisconsin"
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Superior Central School District
Communication with Those Charged with Governance
For the Year Ended June 30, 2016

October 17, 2016

To the Board of Education of the
Superior Central School District
E2865 Highway M-94
Eben Junction, Michigan 49825

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Superior Central School District (the School District) 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, if applicable, *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 June 24, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in the notes to the financial statements. As described in the notes to the financial statements, the School District adopted the following new accounting guidance: Statement of Governmental Accounting Standards (GASB Statement) No. 72, *Fair Value Measurement and Application,* Statement of Governmental Accounting Standards (GASB Statement) No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement of Governmental Accounting Standards (GASB Statement) No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No, 68, and No.73* in fiscal year 2016. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of accumulated depreciation is based on historical cost. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of employee benefit obligations is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the School District's proportionate share of Net Pension Liability is based on an actuarial performed for the Michigan Public Employees' Retirement System (MPSERS) to determine its liability. We evaluated the key factors and assumptions used to develop the School District's proportionate share of Net Pension Liability, based on information provided by the Michigan Department of Technology, Management and Budget Office of Retirement Services, in determining that it is reasonable in relation to the financial statements taken as a whole.

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

The disclosure of the School District's proportionate share of the Defined Benefit Pension Plan includes significant actuarial assumptions used in calculating the valuation. Gabriel, Roeder, Smith & Company was the actuarial company hired by the Retirement Board of the Michigan Public Employees' Retirement System (MPSERS) and the Michigan Department of Technology, Management and Budget Office of Retirement Services for preparation of the annual actuarial valuation. A full listing of the actuarial assumptions used can be found MPSERS' Comprehensive Annual Financial Report of the Fiscal Year Ended September 30, 2015.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. 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 October 17, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Our consideration of internal control was for the limited purpose described in a separate letter and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies item 2016-001 – 2016-002.

<u>Other Matters</u>

We applied certain limited procedures to the Required Supplementary Information listed (RSI) in the audited financial statements table of contents, which is 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.

Board of Education of the
Superior Central School District

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLC
Certified Public Accountants