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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2011

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
FINANCIAL REPORT
Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Grant Township School District No. 2

I have audited the accompanying financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grant Township School District No. 2's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Grant Township School District No. 2, as of June 30, 2011 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note ID5 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 24, 2011 on my consideration of Grant Township School District No. 2's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

Jackie A. Aalto

Jackie A. Aalto, CPA

October 24, 2011

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Management's Discussion and Analysis

As management of Grant Township School District No. 2 ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of this fiscal year by \$340,841 (net assets). Of this amount \$275,686 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District's governmental fund reported ending fund balance of \$267,437, an increase of \$12,983 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, the condition of the school building, and the long-term cash flow needs of the District.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction and support services. The District has no business-type activities.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. This District has only one fund, the General Fund.

Financial Analysis of the District as a Whole

Net assets – The District’s combined net assets were more on June 30, 2011 than the prior fiscal year by \$37,145. The change is mainly due to the increase in the property tax millage levied on non-principal residences.

The table below provides a summary of the District’s net assets as of June 30, 2011 and 2010:

	<u>Governmental Activities</u>	
	(in thousands)	
	<u>2011</u>	<u>2010</u>
Assets:		
Current and other assets	\$ 297.8	\$ 277.1
Capital assets, net of accumulated depreciation	<u>65.2</u>	<u>36.6</u>
Total Assets	<u>363.0</u>	<u>313.7</u>
Liabilities – Current	<u>22.1</u>	<u>15.4</u>
Net Assets:		
Invested in capital assets, net of related debt	65.2	36.6
Unrestricted	<u>275.7</u>	<u>261.7</u>
Total Net Assets	<u>\$ 340.9</u>	<u>\$ 298.3</u>

The table below provides a summary of the District’s change in net assets for the years ended June 30, 2011 and 2010:

	<u>Governmental Activities</u>	
	(in thousands)	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2.3	\$ 4.5
Operating grants and contributions	46.7	18.1
General revenues:		
Property taxes	172.8	172.6
State sources	.1	3.3
Investment earnings	<u>1.2</u>	<u>1.9</u>
Total Revenues	<u>223.1</u>	<u>200.4</u>
Expenses:		
Instruction	114.8	95.8
Support services	<u>71.2</u>	<u>57.8</u>
Total Expenses	<u>186.0</u>	<u>153.6</u>
Change in Net Assets	<u>\$ 37.1</u>	<u>\$ 46.8</u>

As reported in the statement of activities, the cost of governmental activities was \$186,003. These activities were primarily funded by property taxes.

A reconciliation of the change in net assets to the change in fund balance appears on page 12.

Financial Analysis of the District's General Fund

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred.

The District's instruction and support services activities are reported in the General Fund. The District's fund balance was \$267,437.

A reconciliation of the fund balance to the net assets appears on page 11.

Capital Assets

At June 30, 2011, the District had \$65,155 invested in capital assets.

	<u>Governmental Activities</u>	
	(in thousands)	
	<u>2011</u>	<u>2010</u>
Building and improvements	\$ 31.0	\$ 31.0
Vehicle	77.0	39.0
Equipment	<u>16.1</u>	<u>16.1</u>
Total capital assets	124.1	86.1
Accumulated depreciation	<u>(58.9)</u>	<u>(49.5)</u>
Net capital assets	<u>\$ 65.2</u>	<u>\$ 36.6</u>

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the start of the fiscal year. A schedule showing the District's budget amounts compared with amounts actually paid and received is provided in the Required Supplementary Information section of these financial statements.

Budgeted and actual revenues for the General Fund were \$211,726 and \$227,525, respectively. Budgeted and actual expenditures for the General Fund were \$213,797 and \$214,542, respectively.

General Economic Factors

The District depends primarily on local non-principal residence property taxes to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the District in 2011.

Contacting the School District's Financial Management

The financial report is designed to provide users of the report with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report, contact Ms. Peggy Kauppi, P.O. Box 74, Copper Harbor, Michigan 49918.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

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

	<u>Governmental Activities</u>
Assets	
Cash	\$ 174,499
Investments	82,234
Receivables	41,071
Capital assets, net of accumulated depreciation	<u>65,155</u>
Total Assets	<u>362,959</u>
Liabilities	
Accounts payable and other current liabilities	13,435
Due to other governmental units	<u>8,683</u>
Total Liabilities	<u>22,118</u>
Net Assets	
Invested in capital assets, net of related debt	65,155
Unrestricted	<u>275,686</u>
Total Net Assets	<u>\$ 340,841</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>and Changes in Net Assets</u>
		<u>Services</u>	<u>& Contributions</u>	<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction	\$ 114,822	\$	\$ 44,157	\$ (70,665)
Support services	<u>71,181</u>	<u>2,250</u>	<u>2,550</u>	<u>(66,381)</u>
Total governmental activities	<u>\$ 186,003</u>	<u>\$ 2,250</u>	<u>\$ 46,707</u>	<u>(137,046)</u>
	General revenues:			
	Property taxes			172,843
	State sources – unrestricted			145
	Unrestricted investment earnings			<u>1,203</u>
	Total general revenues			<u>174,191</u>
	Change in net assets			37,145
	Net assets – beginning, adjusted			<u>303,696</u>
	Net assets – ending			<u>\$ 340,841</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

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

	<u>General Fund</u>
Revenues	
Local sources	\$ 176,473
State sources	145
Federal sources	44,157
Interdistrict sources	<u>6,750</u>
Total Revenues	<u>227,525</u>
Expenditures	
Current	
Instruction	112,411
Support services:	
General administration	16,090
Operations and maintenance	12,821
Transportation	35,222
Capital outlay	<u>37,998</u>
Total Expenditures	<u>214,542</u>
Net Change in Fund Balance	12,983
Fund Balance – Beginning, adjusted	<u>254,454</u>
Fund Balance – Ending	<u>\$ 267,437</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities	
Total net change in fund balance – Governmental Fund	\$ 12,983
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 and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	28,539
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund.	<u>(4,377)</u>
Change in net assets of governmental activities	<u>\$ 37,145</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

I. Summary of Significant Accounting Policies

The basic financial statements of Grant Township School District No. 2 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Grant Township School District No. 2 ("District") is governed by the Grant Township School District No. 2's Board of Education ("Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Government-wide financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use, or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, state foundation aid, and other items not included as program revenues are reported instead as general revenues.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The District has only one governmental fund which is the General Fund. This fund is used to account for all financial resources of the District.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The District did not have any short-term investments at June 30, 2011.

Investments are stated at cost, which approximates fair value, and include only certificates of deposit.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

2. *Receivables*

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

For the year ended June 30, 2011, the District levied 5.1670 mills on non-principal residences and commercial personal property. Property taxes collected more than 60 days after June 30, 2011 are not recognized as revenue of the current year but rather as deferred revenue in the liability section of the balance sheet.

State Foundation Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide 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, 2011, the foundation allowance was based on pupil membership counts taken in February and September 2010.

3. *Capital Assets*

Capital assets, which include property, vehicle and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year, and computer equipment with an initial cost of more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. As the District constructs or acquires additional capital assets each period they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the District values these capital assets at the estimated fair value of the item at the date of its donation.

Property, vehicle and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	10 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 25 years

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

4. *Compensated Absences*

The District generally provides for granting sick and personal leave with pay. There is no liability for unpaid accumulated sick or personal leave pay since the District does not have a policy to pay any amounts when employees separate from service from the District. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

5. *Fund Balance*

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

6. Use of Estimates

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

An annual budget is adopted by the District's Board of Education. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for this fund. The budget is adopted at the function level and control is exercised at the function level. All annual appropriations lapse at year end.

B. Excess of Expenditures over Appropriations in Budgeted Funds

Actual expenditures exceeded appropriations in the General Fund instruction function by \$4,348.

III. Detailed Notes on all Funds

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The District has designated three banks for the deposit of District funds. The District's deposits and investment policy are in accordance with statutory authority.

At June 30, 2011 the District's carrying amount of cash and investments (certificates of deposit only) was \$256,733 with a corresponding bank balance of \$257,290, all of which was covered by federal depository insurance.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

B. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated:				
Building and improvements	\$ 31,000	\$	\$	\$ 31,000
Vehicle	39,000	37,998		76,998
Equipment	<u>16,072</u>			<u>16,072</u>
 Total capital assets being depreciated	 <u>86,072</u>	 <u>37,998</u>		 <u>124,070</u>
 Accumulated depreciation:				
Building and improvements	(10,150)	(620)		(10,770)
Vehicle	(32,000)	(6,428)		(38,428)
Equipment	<u>(7,306)</u>	<u>(2,411)</u>		<u>(9,717)</u>
 Total accumulated depreciation	 <u>(49,456)</u>	 <u>(9,459)</u>		 <u>(58,915)</u>
 Governmental activities capital assets, net	 <u>\$ 36,616</u>	 <u>\$ 28,539</u>	 <u>\$</u>	 <u>\$ 65,155</u>

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

Governmental Activities

Instruction	\$ 2,411
Operations and maintenance	620
Transportation	<u>6,428</u>
 Total depreciation expense – governmental activities	 <u>\$ 9,459</u>

C. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue consisted of delinquent property taxes of \$8,249

D. Fund Balance/Net Assets

The beginning fund balance/net assets for the District were adjusted by a net increase of \$5,430 to correct a prior year grant receivable.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

IV. Other Information

A. Employee Retirement System

Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing, multiple-employer, state-wide defined benefit public employee retirement system governed by the State of Michigan. The MPSERS provides retirement and survivor and disability benefits and post retirement benefits for health, dental and vision to plan members and their beneficiaries. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (800) 381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work from January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

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

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of payroll and

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the District is required to match 50% up to 1% of the employee's contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the year ended June 30, 2011, 2010, and 2009 were \$15,927, \$11,614, and \$10,481, respectively.

Other Post-Employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing coverage.

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

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2011

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Required Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Local sources	\$ 161,300	\$ 178,976	\$ 176,473
State sources	3,000	3,000	145
Federal sources	23,000	23,000	44,157
Interdistrict sources	<u>5,000</u>	<u>6,750</u>	<u>6,750</u>
Total Revenues	<u>192,300</u>	<u>211,726</u>	<u>227,525</u>
Expenditures			
Instruction	106,430	108,063	112,411
Support services:			
General administration	15,240	16,474	16,090
Operations and maintenance	13,870	13,870	12,821
Transportation	36,760	36,760	35,222
Capital outlay	<u>20,000</u>	<u>38,630</u>	<u>37,998</u>
Total Expenditures	<u>192,300</u>	<u>213,797</u>	<u>214,542</u>
Net Change in Fund Balance	-	(2,071)	12,983
Fund Balance – Beginning, adjusted	<u>254,454</u>	<u>254,454</u>	<u>254,454</u>
Fund Balance – Ending	<u>\$ 254,454</u>	<u>\$ 252,383</u>	<u>\$ 267,437</u>

Federal Programs



**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
Grant Township School District No. 2

I have audited the financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2011 which collectively comprise Grant Township School District No. 2's basic financial statements, and have issued my report thereon dated October 24, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Grant Township School District No. 2's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Grant Township School District No. 2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Grant Township School District No. 2's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that I consider to be a significant deficiency in internal control over financial reporting as item 2011-01. 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.

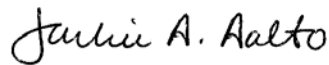
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Township School District No. 2's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I also noted certain matters that I reported to management of Grant Township School District No. 2 in a separate letter dated October 24, 2011.

Grant Township School District No. 2's response to the finding identified in my audit is described in the accompanying schedule of findings and responses. I did not audit Grant Township School District No. 2's response and, accordingly, I express no opinion on it.

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


Jackie A. Aalto, CPA

October 24, 2011

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Findings and Responses

Year Ended June 30, 2011

SIGNIFICANT DEFICIENCIES

2011-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The District's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the District's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Response: We concur with the recommendation.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Prior Audit Findings

Year Ended June 30, 2010

SIGNIFICANT DEFICIENCIES

2010-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The District's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the District's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Status: The Board of Education has provided oversight control in the District's activities.

To the Board of Education
Grant Township School District No. 2

In planning and performing my audit of the financial statements of Grant Township School District No. 2 ("District") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

However, during my audit I noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect my report dated October 24, 2011 on the financial statements of Grant Township School District No. 2. My comments are summarized as follows.

- Public Act 2 of 1968 as amended through Act 493 of 2000 Section 18 provides that a School District shall not incur expenditures in excess of the amounts appropriated. During the year ended June 20, 2011, expenditures were incurred in excess of amounts appropriated in the General Fund. It is recommended that the Board of Education and school administration work together to fully comply with all provisions of the Act.
- Budgets are to be posted to the District's website within 30 days after the Board adopts its annual operating budget (General Appropriations Act) and after any subsequent amendments to that appropriation. I recommend that the District make the appropriation and subsequent revisions available on its website in a format prescribed by the department. The 2010-2011 State School Aid Act, Section 18 (2), requires districts to include a "Budget and Salary/Compensation Transparency Reporting" link on each district's homepage. Guidelines for this reporting may be found in the *Michigan Public School Accounting Manual*, Section II, C.05 at the following URL: http://www.michigan.gov/documents/sc-ii_13265_7.pdf.
- Receipts are not being deposited consistently on a timely basis. At the present time, cash receipts are accumulated and periodic deposits are made. As a result, not only is there risk of loss from burglary, misplacement, or misappropriation, but the cash is not available for expenditures or investment. I recommend that deposits be made on a timelier basis, both to improve cash flow and to reduce the risk of loss.
- During the course of my audit, it was noted that no formal documentation exists for employee pay rates and benefits. I suggest that the Board formally document all authorized pay rates and benefits and that documentation should be placed in personnel files.

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

I would like to thank the District personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA
October 24, 2011

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

P.O. Box 74

Copper Harbor, Michigan 49918

Tel. (906) 289-4447

October 26, 2011

Michigan Department of Education
Office of Audits
Hannah Bldg., 4th Floor, B-17
P.O. Box 30008
Lansing, MI 48909

Dear Ms. Suggitt:

The Grant Township School District No. 2 respectfully submits the following corrective action plan for the year ended June 30, 2011.

In the report on Compliance and on Internal Control, our CPA described a significant deficiency related to the lack of segregation of duties. This lack of segregation of duties is due to the small size of our School District. This dictates that the School Board remains involved in the financial affairs of the School District to provide oversight and independent review functions. The School Board has continued to provide oversight and independent review functions.

The management letter also noted that our actual expenditures had exceeded our budgeted expenditures in the instructional function. Although in total we were under budget, we were not aware of the requirement to adjust the amounts at the function level. We will be reviewing our budget periodically to avoid this situation in the future.

We are currently in the process of implementing the following procedures:

- 1) Requiring that all receipts be deposited timely.
- 2) Having formal written contracts for our employees.

If you have any questions regarding this plan, please contact me at (906) 289-4447.

Sincerely,



Peggy Kauppi
School Board President



Jackie A. Aalto

Certified Public Accountant

200 Fifth St., Ste. 104 ■ Calumet, MI ■ 49913

Tel: (906) 337-2727 ■ Fax: (906) 337-2772

Email: jackie@jaaltocpa.com

October 24, 2011

To the Board of Education
Grant Township School District No. 2

I have audited the financial statements of the governmental activities and the major fund of Grant Township School District No. 2 for the year ended June 30, 2011. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated September 26, 2011. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Grant Township School District No. 2 are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year, except for the adoption of GASB 54 (*Fund Balance Reporting and Governmental Fund Type Definitions*). I noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were recording historical costs of fixed assets, setting of the useful lives of fixed assets, and accumulated depreciation to date on the fixed assets.

Management's estimate of the historical cost, useful lives, and related depreciation expense is based on State of Michigan Department of Education guidelines. I evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

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

Management Representations

I have requested certain representations from management that are included in the management representation letter dated October 24, 2011.

Management Consultations with Other Independent Accountants

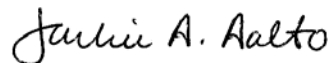
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination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

Other Audit Findings or Issues

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

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

Sincerely,



Jackie A. Aalto, CPA