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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2012

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
FINANCIAL REPORT
Year Ended June 30, 2012

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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, 2012, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Grant Township School District No. 2, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 1, 2012, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

October 1, 2012

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, 2012. 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 \$357,565 (net assets). Of this amount \$299,597 (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 \$288,516, an increase of \$21,079 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 8 and 9 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, 2012 than the prior fiscal year by \$16,724.

The table below provides a summary of the District’s net assets as of June 30, 2012 and 2011:

	<u>Governmental Activities</u>	
	(in thousands)	
	<u>2012</u>	<u>2011</u>
Assets:		
Current and other assets	\$ 325.2	\$ 297.8
Capital assets, net of accumulated depreciation	<u>58.0</u>	<u>65.2</u>
Total Assets	<u>383.2</u>	<u>363.0</u>
Liabilities – Current	<u>25.6</u>	<u>22.1</u>
Net Assets:		
Invested in capital assets, net of related debt	58.0	65.2
Unrestricted	<u>299.6</u>	<u>275.7</u>
Total Net Assets	<u>\$ 357.6</u>	<u>\$ 340.9</u>

The table below provides a summary of the District’s change in net assets for the years ended June 30, 2012 and 2011:

	<u>Governmental Activities</u>	
	(in thousands)	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$	\$ 2.3
Operating grants and contributions	23.6	46.7
General revenues:		
Property taxes	175.7	172.8
State sources	2.7	.1
Investment earnings	<u>1.1</u>	<u>1.2</u>
Total Revenues	<u>203.1</u>	<u>223.1</u>
Expenses:		
Instruction	109.3	114.8
Support services	<u>77.1</u>	<u>71.2</u>
Total Expenses	<u>186.4</u>	<u>186.0</u>
Change in Net Assets	<u>\$ 16.7</u>	<u>\$ 37.1</u>

As reported in the statement of activities, the cost of governmental activities was \$186,423. 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 11.

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 \$288,516.

A reconciliation of the fund balance to the net assets appears on page 10.

Capital Assets

At June 30, 2012, the District had \$57,968 invested in capital assets.

	<u>Governmental Activities</u>	
	(in thousands)	
	<u>2012</u>	<u>2011</u>
Building and improvements	\$ 31.0	\$ 31.0
Vehicle	77.0	77.0
Equipment	<u>18.0</u>	<u>16.1</u>
Total capital assets	126.0	124.1
Accumulated depreciation	<u>(68.0)</u>	<u>(58.9)</u>
Net capital assets	<u>\$ 58.0</u>	<u>\$ 65.2</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 \$189,500 and \$200,315, respectively. Budgeted and actual expenditures for the General Fund were \$190,753 and \$179,236, 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 2012.

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, 2012**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 175,637
Investments	113,028
Receivables	36,545
Capital assets, net of accumulated depreciation	<u>57,968</u>
Total Assets	<u>383,178</u>
Liabilities	
Accounts payable and other current liabilities	19,854
Due to other governmental units	<u>5,759</u>
Total Liabilities	<u>25,613</u>
Net Assets	
Invested in capital assets, net of related debt	57,968
Unrestricted	<u>299,597</u>
Total Net Assets	<u>\$ 357,565</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, 2012**

<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	\$ 109,284	\$	\$ 22,748	\$ (86,536)
Support services	<u>77,139</u>	<u> </u>	<u>808</u>	<u>(76,331)</u>
Total governmental activities	<u>\$ 186,423</u>	<u>\$</u>	<u>\$ 23,556</u>	<u>(162,867)</u>
	General revenues:			
	Property taxes			175,735
	State sources – unrestricted			2,727
	Unrestricted investment earnings			<u>1,129</u>
	Total general revenues			<u>179,591</u>
	Change in net assets			16,724
	Net assets – beginning			<u>340,841</u>
	Net assets – ending			<u>\$ 357,565</u>

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Balance Sheet
Governmental Funds
June 30, 2012**

	<u>General Fund</u>
Assets	
Cash	\$ 175,637
Receivables:	
Taxes	14,678
Accounts	2,232
Interest	71
Due from other governmental units	19,564
Investments	<u>113,028</u>
Total Assets	<u>\$ 325,210</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 3,628
Accrued salaries and other liabilities	16,226
Due to other governmental units	5,759
Deferred revenue	<u>11,081</u>
Total Liabilities	36,694
Fund Balance – Unassigned	<u>288,516</u>
Total Liabilities and Fund Balance	<u>\$ 325,210</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets:	
Total governmental fund balance	\$ 288,516
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$125,986 and the accumulated depreciation is \$68,018.	57,968
Receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund.	<u>11,081</u>
Net assets of governmental activities	<u>\$ 357,565</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, 2012**

	<u>General Fund</u>
Revenues	
Local sources	\$ 174,840
State sources	2,727
Federal sources	22,708
Interdistrict sources	<u>40</u>
Total Revenues	<u>200,315</u>
Expenditures	
Current	
Instruction	107,229
Support services:	
General administration	17,475
Operations and maintenance	12,143
Transportation	35,473
Other	5,000
Capital outlay	<u>1,916</u>
Total Expenditures	<u>179,236</u>
Net Change in Fund Balance	21,079
Fund Balance – Beginning	<u>267,437</u>
Fund Balance – Ending	<u>\$ 288,516</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	\$ 21,079
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 depreciation exceeded capital outlay expense in the current period.	(7,187)
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund.	<u>2,832</u>
Change in net assets of governmental activities	<u>\$ 16,724</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, 2012

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 ("the 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, 2012

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, 2012.

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, 2012

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, 2012, the District levied 5.1670 mills on non-principal residences and commercial personal property. Property taxes collected more than 60 days after June 30, 2012 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, 2012, the foundation allowance was based on pupil membership counts taken in February and September 2011.

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, 2012

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*

In the fund financial statements, governmental funds report the following classification of fund balance:

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.

When both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance) are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2012

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

During the year ended June 30, 2012, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Instruction	\$105,460	\$107,229	\$1,769
Support services:			
General administration	15,979	17,475	1,496
Transportation	33,290	35,473	2,183

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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2012

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, 2012 the District's carrying amount of cash and investments (certificates of deposit only) was \$288,665 with a corresponding bank balance of \$289,244, all of which was covered by federal depository insurance.

B. Capital Assets

Capital asset activity for the year ended June 30, 2012 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	76,998			76,998
Equipment	<u>16,072</u>	<u>1,916</u>	<u> </u>	<u>17,988</u>
Total capital assets being depreciated	<u>124,070</u>	<u>1,916</u>	<u> </u>	<u>125,986</u>
Accumulated depreciation:				
Building and improvements	(10,770)	(620)		(11,390)
Vehicle	(38,428)	(6,428)		(44,856)
Equipment	<u>(9,717)</u>	<u>(2,055)</u>	<u> </u>	<u>(11,772)</u>
Total accumulated depreciation	<u>(58,915)</u>	<u>(9,103)</u>	<u> </u>	<u>(68,018)</u>
Governmental activities capital assets, net	<u>\$ 65,155</u>	<u>\$ (7,187)</u>	<u>\$</u>	<u>\$ 57,968</u>

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

Governmental Activities	
Instruction	\$ 2,055
Operations and maintenance	620
Transportation	<u>6,428</u>
Total depreciation expense – governmental activities	<u>\$ 9,103</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2012

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 \$11,081

IV. Other Information

A. Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits – Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 1, 2011 through June 30, 2012. The employer contribution rate for pension plus plan members was 10.66 percent for the period from July 1, 2011 through September 30, 2011 and 14.73 percent for the period from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2012

Postemployment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 8.50 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 8.50 percent for the period from October 1, 2011 through June 30, 2012.

The District's required and actual contributions to the plan for pension and postemployment benefits for the years ended June 30, 2012, 2011 and 2010 were \$18,259, \$15,927, and \$11,614, respectively.

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.

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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Local sources	\$ 167,100	\$ 167,500	\$ 174,840
State sources			2,727
Federal sources	22,000	22,000	22,708
Interdistrict sources			40
Total Revenues	<u>189,100</u>	<u>189,500</u>	<u>200,315</u>
Expenditures			
Instruction	104,960	105,460	107,229
Support services:			
General administration	15,590	15,979	17,475
Operations and maintenance	13,670	16,904	12,143
Transportation	35,760	33,290	35,473
Other		5,000	5,000
Capital outlay	<u>19,120</u>	<u>14,120</u>	<u>1,916</u>
Total Expenditures	<u>189,100</u>	<u>190,753</u>	<u>179,236</u>
Net Change in Fund Balance	-	(1,253)	21,079
Fund Balance – Beginning	<u>267,437</u>	<u>267,437</u>	<u>267,437</u>
Fund Balance – Ending	<u>\$ 267,437</u>	<u>\$ 266,184</u>	<u>\$ 288,516</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, 2012, which collectively comprise Grant Township School District No. 2's basic financial statements and have issued my report thereon dated October 1, 2012. 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

Management of Grant Township School District No. 2, is responsible for establishing and maintaining effective 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grant Township School District No. 2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the 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 2012-01. 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.

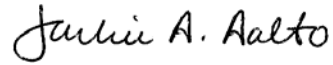
Compliance and Other Matters

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 1, 2012.

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 1, 2012

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Findings and Responses

Year Ended June 30, 2012

SIGNIFICANT DEFICIENCIES

2012-01 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, 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.

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 (“the District”) as of and for the year ended June 30, 2012, 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 1, 2012 on the financial statements of Grant Township School District No. 2. My comments are summarized as follows.

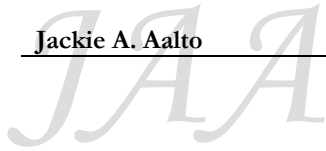
- Public Act 2 of 1968 as amended through Act 493 of 2000 Section 18 provides that a School District shall not incur expenditures in excess of the amounts appropriated. During the year ended June 20, 2012, expenditures were incurred in excess of amounts appropriated in the General Fund. It is recommended that the Board of Education and school administration work together to fully comply with all provisions of the Act.
- Every district receiving State School Aid is required to post Budget and Salary/Compensation Transparency Information on the District’s website. The Michigan Department of Education guidelines for posting financial data to district websites, as required by Section 18(2) and 18(3) of the State School Aid Act, is available on the Department’s website. I recommend that the District post the required information to its website.
- As a precondition to receiving federal funds, prospective recipients must have effective administrative and financial internal controls. As described in 34CFR part 80, 2 CFR part 225 and OMB Compliance Supplement Part 6, school districts must have procedures for their financial management systems, payments, etc. Specific requirements can be found on the Michigan Department of Education’s website. I recommend that the District have written procedures for receiving federal funds.
- 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

Jackie A. Aalto, CPA
October 1, 2012



October 1, 2012

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, 2012. 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 17, 2012. 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 fiscal year. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting 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 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 my 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 1, 2012.

Management Consultations with Other Independent Accountants

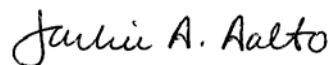
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination 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 governmental unit’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 information is intended solely for the use of Board of Education and management of Grant Township School District No. 2 and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA