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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2013

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**FINANCIAL REPORT
Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise Grant Township School District No. 2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 23, 2013, 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* in considering Grant Township School District No. 2's internal control over financial reporting and compliance.



Jackie A. Aalto, CPA

October 23, 2013

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, 2013. 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 \$367,477 (net position). Of this amount \$295,350 (unrestricted net position) 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 \$278,815, a decrease of \$9,701 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 position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 position – The District’s combined net position increased by \$9,912.

The table below provides a summary of the District’s net position as of June 30, 2013 and 2012:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
Assets:		
Current and other assets	\$ 325,210	\$ 322,475
Capital assets, net of accumulated depreciation	<u>57,968</u>	<u>72,127</u>
Total assets	<u>383,178</u>	<u>394,602</u>
Liabilities – current	<u>25,613</u>	<u>27,125</u>
Net Position:		
Net investment in capital assets	57,968	72,127
Unrestricted	<u>299,597</u>	<u>295,350</u>
Total net position	<u>\$ 357,565</u>	<u>\$ 367,477</u>

The table below provides a summary of the District’s change in net position for the years ended June 30, 2013 and 2012:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 0	\$ 0
Operating grants and contributions	23,556	22,470
General revenues:		
Property taxes	175,735	177,199
State sources	2,727	3,034
Investment earnings	<u>1,129</u>	<u>1,244</u>
Total revenues	<u>203,147</u>	<u>203,947</u>
Expenses:		
Instruction	109,284	118,019
Support services	<u>77,139</u>	<u>76,016</u>
Total expenses	<u>186,423</u>	<u>194,035</u>
Change in net position	<u>\$ 16,724</u>	<u>\$ 9,912</u>

As reported in the statement of activities, the cost of governmental activities was \$194,035. These activities were primarily funded by property taxes.

A reconciliation of the change in net position 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 \$278,815.

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

Capital Assets

At June 30, 2013, the District had \$72,127 invested in capital assets.

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
Building and improvements	\$ 31,000	\$ 53,508
Vehicle	76,998	76,998
Equipment	<u>17,988</u>	<u>17,988</u>
Total capital assets	125,986	148,494
Accumulated depreciation	<u>(68,018)</u>	<u>(76,367)</u>
Net capital assets	<u>\$ 57,968</u>	<u>\$ 72,127</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 \$185,700 and \$198,493, respectively. Budgeted and actual expenditures for the General Fund were \$207,190 and \$208,194, 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 2013.

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. Miranda Kilpela-Davis, P.O. Box 74, Copper Harbor, Michigan 49918.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Statement of Net Position
June 30, 2013**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 167,578
Investments	114,104
Receivables	20,562
Intergovernmental receivable	20,231
Capital assets, net of accumulated depreciation	<u>72,127</u>
Total assets	<u>394,602</u>
Liabilities	
Accounts payable and other current liabilities	22,765
Intergovernmental payable	<u>4,360</u>
Total liabilities	<u>27,125</u>
Net Position	
Net investment in capital assets	72,127
Unrestricted	<u>295,350</u>
Total net position	<u>\$ 367,477</u>

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Statement of Activities
For the Year Ended June 30, 2013**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Governmental Activities</u>
<u>Functions/Programs</u>				
Governmental activities:				
Instruction	\$ 118,019	\$	\$ 22,419	\$ (95,600)
Support services	<u>76,016</u>	<u> </u>	<u>51</u>	<u>(75,965)</u>
Total governmental activities	<u>\$ 194,035</u>	<u>\$</u>	<u>\$ 22,470</u>	<u>(171,565)</u>
General revenues:				
Property taxes				177,199
State sources – unrestricted				3,034
Unrestricted investment earnings				<u>1,244</u>
Total general revenues				<u>181,477</u>
Change in net position				9,912
Net position – beginning				<u>357,565</u>
Net position – ending				<u>\$ 367,477</u>

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Balance Sheet
Governmental Fund
June 30, 2013**

	<u>General Fund</u>
Assets	
Cash	\$ 167,578
Investments	114,104
Receivables:	
Taxes	20,527
Interest	35
Intergovernmental receivable	<u>20,231</u>
Total assets	<u>\$ 322,475</u>
Liabilities	
Accounts payable	\$ 3,338
Accrued salaries and other liabilities	19,427
Intergovernmental payable	4,360
Unearned revenue	<u>16,535</u>
Total liabilities	43,660
Fund Balance – unassigned	<u>278,815</u>
Total liabilities and fund balance	<u>\$ 322,475</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:	
Total governmental fund balance	\$ 278,815
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$148,494 and the accumulated depreciation is \$76,367.	72,127
Receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenues in the fund.	<u>16,535</u>
Net position of governmental activities	<u>\$ 367,477</u>

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2013**

	<u>General Fund</u>
Revenues	
Local sources	\$ 173,040
State sources	3,034
Federal sources	<u>22,419</u>
Total revenues	<u>198,493</u>
Expenditures	
Current	
Instruction	117,234
Support services:	
General administration	19,721
Operations and maintenance	10,902
Transportation	32,829
Other	5,000
Capital outlay	<u>22,508</u>
Total expenditures	<u>208,194</u>
Net change in fund balance	(9,701)
Fund balance – beginning	<u>288,516</u>
Fund balance – ending	<u>\$ 278,815</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	
Net change in fund balance – Governmental Fund	\$ (9,701)
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 outlays exceeded depreciation in the current period.	14,159
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.	<u>5,454</u>
Change in net position of governmental activities	<u>\$ 9,912</u>

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

I. Summary of Significant Accounting Policies

The accounting policies of Grant Township School District No. 2 ("the District") conform to accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is governed by an elected five-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. Based on the application of the criteria, the District does not contain any component units.

B. Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the 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 revenue includes 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, intergovernmental payments, and other items not included as program revenues are reported instead as general revenues.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

The governmental fund financial statement is 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, when applicable, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental fund. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state-shared revenues, franchise taxes, licenses, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

D. Assets, Liabilities, and Net Position

1. Cash 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, 2013.

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

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, 2013, the District levied 5.2000 mills on non-principal residences and commercial personal property. Property taxes collected more than 60 days after June 30, 2013 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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

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, 2013, the foundation allowance was based on pupil membership counts taken in February and October of the previous year.

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

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. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

6. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statement a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. 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.

7. Fund balance policies

Fund balance of the governmental fund is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education assigns fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

8. 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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

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, 2013, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Instruction	\$110,725	\$117,234	\$6,509

III. Detailed Notes on all Funds

A. Cash 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.

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At June 30, 2013 the District’s carrying amount of cash and investments (certificates of deposit only) was \$281,682 with a corresponding bank balance of \$282,633, all of which was covered by federal depository insurance.

Interest rate risk. The government does not have a formal investment policy for managing its exposure to declines in fair values.

Concentration of credit risk. The government does not have a formal investment policy for managing its concentration of credit risk.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

B. Capital Assets

Capital asset activity for the year ended June 30, 2013 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	\$ 22,508	\$	\$ 53,508
Vehicle	76,998			76,998
Equipment	<u>17,988</u>			<u>17,988</u>
 Total capital assets being depreciated	 <u>125,986</u>	 <u>22,508</u>		 <u>148,494</u>
 Accumulated depreciation:				
Building and improvements	(11,390)	(1,136)		(12,526)
Vehicle	(44,856)	(6,428)		(51,284)
Equipment	<u>(11,772)</u>	<u>(785)</u>		<u>(12,557)</u>
 Total accumulated depreciation	 <u>(68,018)</u>	 <u>(8,349)</u>		 <u>(76,367)</u>
 Governmental activities capital assets, net	 <u>\$ 57,968</u>	 <u>\$ 14,159</u>	 <u>\$</u>	 <u>\$ 72,127</u>

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

Governmental Activities	
Instruction	\$ 785
Operations and maintenance	1,136
Transportation	<u>6,428</u>
 Total depreciation expense – governmental activities	 <u>\$ 8,349</u>

IV. Other Information

A. Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The District participates in the Michigan Public School Employees' Retirement System (MPERS), 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 post-employment healthcare plans. That report is available by writing to the Office of Retirement

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909, or on the web at <http://www.michigan.gov/orsschools>.

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 15.96 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. The employer contribution rate for pension plus plan members was 14.73 percent for the period from July 1, 2012 through September 30, 2012. Beginning October 1, 2012 through January 31, 2013, employees were given the following plan options with the corresponding employer contribution rates:

	<u>First Worked Before July 1, 2010*</u>	<u>First Worked July 1, 2010, through September 3, 2012**</u>	<u>First Worked on or After September 4, 2012 and Remain Pension Plus</u>	<u>First Worked on or After September 4, 2012 and Elect DC</u>
Pension contributions	16.25%	15.02%	15.02%	12.78%
Health contributions	9.11%	9.11%	8.18%	8.18%

* Basic, MIP Fixed, MIP Graded, MIP Plus

** Pension Plus

For the period from February 1, 2013 through June 30, 2013, employees could transition to a defined contribution plan (DC) and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election.

Employees had the following plan options with the corresponding employer contribution rates:

	<u>Basic MIP</u>	<u>Pension Plus</u>	<u>Pension Plus PHF*</u>	<u>Pension Plus to DC with PHF*</u>	<u>Basic MIP DB to DC with DB Health</u>	<u>Basic MIP DB to DC with PHF</u>	<u>Basic MIP with PHF</u>
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan employer contributions:							
DC employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal healthcare fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

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, 2012 through September 30, 2012. For the period from October 1, 2012 through June 30, 2013, the employer contribution rate ranged from 8.18 percent to 9.11 percent dependent upon the employee's date of hire and plan election as noted above. Effective February 1, 2013, members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401 (k) account.

The District's required and actual contributions to the plan for pension and postemployment benefits for the years ended June 30, 2013, 2012 and 2011 were \$21,977, \$18,259, and \$15,927, respectively.

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.

D. Recent Accounting Pronouncements

Effective July 1, 2012, the District adopted the provisions of the following accounting pronouncements: Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. Adoption of this standard did not result in restatement or reclassification of opening net position (formerly net assets) or fund balance.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2013

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balance.

E. Pending Accounting Pronouncement

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning July 1, 2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information. The District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Required Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Local sources	\$ 166,300	\$ 166,300	\$ 173,040
State sources	100	100	3,034
Federal sources	<u>19,300</u>	<u>19,300</u>	<u>22,419</u>
Total revenues	<u>185,700</u>	<u>185,700</u>	<u>198,493</u>
Expenditures			
Instruction	99,415	110,725	117,234
Support services:			
General administration	17,390	20,850	19,721
Operations and maintenance	20,670	12,545	10,902
Transportation	36,550	35,070	32,829
Other		5,000	5,000
Capital outlay	<u>27,000</u>	<u>23,000</u>	<u>22,508</u>
Total expenditures	<u>201,025</u>	<u>207,190</u>	<u>208,194</u>
Net change in fund balance	(15,325)	(21,490)	(9,701)
Fund balance – beginning	<u>288,516</u>	<u>288,516</u>	<u>288,516</u>
Fund balance – ending	<u>\$ 273,191</u>	<u>\$ 267,026</u>	<u>\$ 278,815</u>

Federal Programs

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Grant Township School District No. 2's basic financial statements and have issued my report thereon dated October 23, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Grant Township School District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, I do not express an opinion on the effectiveness of Grant Township School District No. 2's internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, which I consider to be a significant deficiency as item 2013-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Township School District No. 2's financial statements are free from 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*.

Grant Township School District No. 2's Response to Findings

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. Grant Township School District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



Jackie A. Aalto, CPA

October 23, 2013

Grant Township School District No. 2

Schedule of Findings and Responses

For the Year Ended June 30, 2013

2013-01 Lack of Segregation of Incompatible Duties (repeat comment)

Criteria: Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition: The District has several transaction cycles that are performed by the same individual or are not subject to written independent review and approval, reconciling subsidiary detail to the general ledger control accounts, and posting billing and payment adjustments.

Cause: This condition is the result of staffing constraints typical of smaller school districts.

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, I encourage the District to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Response of Governing Board: The District acknowledges the risk associated with internal controls and issues with the segregation of the duties listed above. While the Board of Education is always looking for ways to introduce more checks and balances to all of the accounting functions, limited staffing will always make total separation of duties a challenge.

Grant Township School District No. 2

Schedule of Prior Audit Findings

For the 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.

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, 2013, 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 23, 2013 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, 2013, 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 23, 2013



October 23, 2013

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, 2013. 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, 2013. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

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. As described in Note IV D. to the financial statements, the government adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Adoption of these standards did not result in restatement or reclassification of opening net position or fund balances. 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 estimate affecting the statements was management's estimate of the useful lives of depreciable capital assets. This estimate is based on the length of time it is believed that those assets will provide some economic benefit in the future. I evaluated the key factors and assumptions used to develop this estimate in determining that it is 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 Misstatement

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 Representation

I have requested certain representations from management that are included in the management representation letter dated October 23, 2013.

Management Consultations with Other Independent Accountant

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.

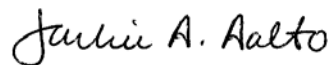
Other Audit Findings or Issues

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the 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.



Jackie A. Aalto, CPA

October 23, 2013