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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2015

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT Year Ended June 30, 2015

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	11
Statement of Revenues, Expenditures, and Changes in Fund Balance	12
Notes to the Financial Statements	13
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	27
Schedule of the District's Proportionate Share of the Net Pension Liability - Michigan Public School Employees Retirement Plan	28
Schedule of the District's Contributions - Michigan Public School Employees Retirement Plan	29
Notes to the Required Supplementary Information	30
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 <i>Government Auditing Standards</i>	32
Schedule of Findings and Responses	34
Schedule of Prior Audit Findings	35

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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note I to the basic financial statements Grant Township School District No. 2 adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting*

for Pensions, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the current fiscal year. My opinion is not modified with respect to this matter.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension system schedules of funding progress and employer contributions, as identified 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 22, 2015, 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 22, 2015

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, 2015. 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 \$261,939 (net position). Of this amount \$32,095 (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 \$250,147, a decrease of \$30,983 in comparison with the prior year.

Overview of the Financial Statements

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

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

The *statement of net 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 9 and 10 of this report.

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

Financial Analysis of the District as a Whole

Net position – The District’s net position decreased by \$11,255.

The table below provides a summary of the District’s net position as of June 30, 2015 and 2014:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 317,428	\$ 288,391
Capital assets, net of accumulated depreciation	<u>206,158</u>	<u>229,844</u>
Total assets	<u>523,586</u>	<u>518,235</u>
Total deferred outflows of resources related to pensions	<u>15,482</u>	<u>22,780</u>
Liabilities:		
Other liabilities	26,869	28,355
Net pension liability	<u>239,005</u>	<u>225,763</u>
Total liabilities	<u>265,874</u>	<u>254,118</u>
Total deferred inflows of resources related to pensions	<u> </u>	<u>24,958</u>
Net Position:		
Net investment in capital assets	206,158	229,844
Unrestricted	<u>67,036</u>	<u>32,095</u>
Total net position	<u>\$ 273,194</u>	<u>\$ 261,939</u>

As required by the Government Accounting Standards Board (GASB), the District adopted GASB Statements No. 68 and No. 71. These standards required the inclusion of the district’s proportionate share of the Michigan Public School Employees Retirement Plan within the District’s financial statements, effective July 1, 2014. The effect of the adoption was to decrease July 1, 2014 beginning net position by \$223,523 and the inclusion of the obligation, and related deferred inflows and outflows, in the June 30, 2015 financial statements. All governments participating in the retirement plan were required to adopt these new standards.

The \$32,095 in unrestricted net position of governmental activities represents the accumulated results of all past years’ operations and the impact from adoption of GASB No. 68. The unrestricted net position balance enables the District to meet working capital and cash flow requirements as well as to provide for future uncertainties.

The table below provides a summary of the District's change in net position for the years ended June 30, 2015 and 2014:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 0	\$ 2,500
Operating grants and contributions	22,690	22,321
Capital grants and contributions	123,217	
General revenues:		
Property taxes	186,123	177,984
State sources	5,929	9,260
Investment earnings	<u>853</u>	<u>685</u>
Total revenues	<u>338,812</u>	<u>212,750</u>
Expenses:		
Instruction	124,151	125,761
Support services	<u>85,421</u>	<u>98,244</u>
Total expenses	<u>209,572</u>	<u>224,005</u>
Change in net position	129,240	(11,255)
Net position – beginning	367,477	273,194
Impact of GASB Statement No. 68 and No. 71	<u>(223,523)</u>	<u> </u>
Net position – ending	<u>\$ 273,194</u>	<u>\$ 261,939</u>

As reported in the statement of activities, the cost of governmental activities was \$224,005. 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 12.

Financial Analysis of the District's General Fund

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

The District's instruction and support services activities are reported in the General Fund. The District's fund balance was \$250,147.

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

Capital Assets

At June 30, 2015, the District had \$229,844 invested in capital assets.

	Governmental Activities	
	2014	2015
Building and improvements	\$ 200,790	\$ 235,086
Vehicle	76,998	81,612
Equipment	<u>18,514</u>	<u>18,514</u>
Total capital assets	296,302	335,212
Accumulated depreciation	<u>(90,144)</u>	<u>(105,368)</u>
Net capital assets	<u>\$ 206,158</u>	<u>\$ 229,844</u>

Additional information on the District's capital assets can be found in Note II B on page 19.

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 \$199,000 and \$212,290, respectively. Budgeted and actual expenditures for the General Fund were \$274,070 and \$243,273, 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 2015.

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, 2015

	<u>Governmental Activities</u>
Assets	
Cash	\$ 155,838
Investments	115,352
Receivables	12,229
Intergovernmental receivable	4,972
Capital assets, net of accumulated depreciation	<u>229,844</u>
Total assets	<u>518,235</u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>22,780</u>
Liabilities	
Accounts payable and other current liabilities	20,915
Intergovernmental payable	7,440
Net pension liability	<u>225,763</u>
Total liabilities	<u>254,118</u>
Deferred Inflows of Resources	
Deferred inflows related to pensions	<u>24,958</u>
Net Position	
Net investment in capital assets	229,844
Unrestricted	<u>32,095</u>
Total net position	<u>\$ 261,939</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, 2015**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>		<u>Capital Grants & Contributions</u>
Governmental activities					
Instruction	\$ 125,761	\$	\$ 22,179		\$ (103,582)
Support services	<u>98,244</u>	<u>2,500</u>	<u>142</u>		<u>(95,602)</u>
Total governmental activities	<u>\$ 224,005</u>	<u>\$ 2,500</u>	<u>\$ 22,321</u>	<u>\$</u>	<u>(199,184)</u>
General revenues:					
Property taxes					177,984
State sources - unrestricted					9,260
Unrestricted investment earnings					<u>685</u>
Total general revenues					<u>187,929</u>
Change in net position					(11,255)
Net position as restated – beginning					<u>273,194</u>
Net position – ending					<u>\$ 261,939</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, 2015**

	<u>General Fund</u>
Assets	
Cash	\$ 155,838
Investments	115,352
Receivables:	
Taxes	12,205
Interest	24
Intergovernmental receivable	<u>4,972</u>
Total assets	<u>\$ 288,391</u>
Liabilities	
Accounts payable	\$ 4,112
Accrued salaries and other liabilities	16,803
Intergovernmental payable	<u>7,440</u>
Total liabilities	28,355
Deferred Inflows of Resources	
Unavailable revenue	9,889
Fund Balance – unassigned	<u>250,147</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 288,391</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:	
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental fund balance	\$ 250,147
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$335,212 and the accumulated depreciation is \$105,368.	229,844
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund.	9,889
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	\$ (225,763)
Deferred outflows related to the net pension liability	22,780
Deferred inflows related to the net pension liability	<u>(24,958)</u>
Net position of governmental activities	<u>\$ 261,939</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, 2015**

	<u>General Fund</u>
Revenues	
Local sources	\$ 180,851
State sources	9,260
Federal sources	<u>22,179</u>
Total revenues	<u>212,290</u>
Expenditures	
Current	
Instruction	120,453
Support services:	
General administration	25,589
Operations and maintenance	14,065
Transportation	44,256
Capital outlay	<u>38,910</u>
Total expenditures	<u>243,273</u>
Net change in fund balance	(30,983)
Fund balance – beginning	<u>281,130</u>
Fund balance – ending	<u>\$ 250,147</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance – Governmental Fund	\$ (30,983)
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.	23,686
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.	460
Change in net pension liability and related deferred amounts	<u>(4,418)</u>
Change in net position of governmental activities	<u>\$ (11,255)</u>

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

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 applicable to government units. The following is a summary of the significant accounting policies used by the District.

A. Description of 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 primary government. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. All of the District's activities are classified as governmental activities.

B. 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.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental fund. A separate financial statement is provided for the governmental fund.

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. 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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

D. Basis of presentation – fund financial statements

The General Fund is the District's only operating fund. It accounts for all financial resources of the District.

E. Measurement focus and basis of accounting

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.

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 District.

F. Budgetary information

1. Budgetary basis of accounting

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

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. Encumbrance accounting is not utilized by the District.

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

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, 2015.

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

2. 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

3. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred outflow related to the pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

category. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable revenues that are not collected during the period of availability. These are deferred and recognized as an inflow of resources in the period that the amount becomes available. The second item is deferred inflows related to the pension plan.

4. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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. Statement No. 71 is a clarification to GASB No. 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the District has reported a net pension liability of \$239,005 and a beginning deferred outflow for pension contributions of \$15,482 made subsequent to the September 30, 2013 measurement date, as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

Net position as previously reported at June 30, 2014	\$ 496,717
Prior period adjustment – implementation of GASB 68	
Net pension liability beginning of year	(239,005)
Beginning deferred outflows	<u>15,482</u>
Total prior period adjustment	<u>(223,523)</u>
Net position as restated, July 1, 2014	<u>\$ 273,194</u>

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 the Financial Statements

June 30, 2015

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 preparation of 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 the Financial Statements

June 30, 2015

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. 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, 2015, the District levied 5.2000 mills on non-principal residences and commercial personal property. Property taxes collected more than 60 days after June 30, 2015 are not recognized as revenue of the current year but rather as unavailable revenue in the liability section of the balance sheet.

3. 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, 2015, the foundation allowance was based on pupil membership counts taken in February and October of the previous year.

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.

II. Detailed notes on all activities

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

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, 2015 the District's carrying amount of cash and investments (certificates of deposit only) was \$271,190 with a corresponding bank balance of \$274,165, all of which was covered by federal depository insurance.

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

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

B. Capital assets

Capital asset activity for the year ended June 30, 2015 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	\$ 200,790	\$ 34,296	\$	\$ 235,086
Vehicle	76,998	4,614		81,612
Equipment	<u>18,514</u>	<u> </u>	<u> </u>	<u>18,514</u>
Total capital assets being depreciated	<u>296,302</u>	<u>38,910</u>	<u> </u>	<u>335,212</u>
Accumulated depreciation:				
Building and improvements	(18,993)	(7,713)		(26,706)
Vehicle	(57,712)	(6,621)		(64,333)
Equipment	<u>(13,439)</u>	<u>(890)</u>	<u> </u>	<u>(14,329)</u>
Total accumulated depreciation	<u>(90,144)</u>	<u>(15,224)</u>	<u> </u>	<u>(105,368)</u>
Governmental activities capital assets, net	<u>\$ 206,158</u>	<u>\$ 23,686</u>	<u>\$</u>	<u>\$ 229,844</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

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

Governmental activities	
Instruction	\$ 890
Operations and maintenance	7,713
Transportation	<u>6,621</u>
 Total depreciation expense – governmental activities	 <u>\$ 15,224</u>

C. Retirement plan – Michigan Public School Employees Retirement System

General information about the pension plan

Plan Description. The District contributes to the Michigan Public School Employees Retirement System (“MPSERS”), a cost-sharing multiple-employer pension plan administered by the State of Michigan, Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board that covers substantially all employees of the school district. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan</u>	<u>Plan Type</u>	<u>Plan Status</u>
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7 %* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

Benefits Provided. MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

<u>Plan</u>	<u>Eligibility Based on Years of Service</u>	<u>Vesting</u>
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic Age	55 with 30 years or age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

Contributions. Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and onetime prepayment rates, range from 20.96% to 25.78% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment, was \$17,463.

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

At June 30, 2015, the District reported a liability of \$225,763 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014 and 2013, the District's proportion (as calculated by MPSERS) was 0.00102%.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$18,287. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$
Changes of assumptions	8,330	
Net difference between projected and actual earnings on pension plan investments		24,958
Changes in proportion and differences between District contributions and proportionate share of contributions		
District contributions subsequent to the measurement date	<u>14,450</u>	<u> </u>
Total	<u>\$ 22,780</u>	<u>\$ 24,958</u>

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Plan Year Ended	
<u>June 30</u>	<u>Amount</u>
2015	\$ (4,073)
2016	(4,073)
2017	(4,073)
2018	<u>(4,409)</u>
Total	<u>\$ (16,628)</u>

Actuarial Assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return	8.0% (7.0% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

The mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity pools	28.00%	4.80%
Alternative investment pool	18.00%	8.50%
International equity	16.00%	6.10%
Fixed income pools	10.50%	1.50%
Real estate and infrastructure pools	10.00%	5.30%
Absolute return pools	15.50%	6.30%
Short-term investment pools	<u>2.00%</u>	-0.20%
	<u>100.00%</u>	

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the District, calculated using the discount rate of 7.0% to 8.0%, depending on the plan option, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>7.0% / 6.0%</u>	<u>8.0% / 7.0%</u>	<u>9.0% / 8.0%</u>
\$ 297,649	\$ 225,763	\$ 165,198

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

Payable to the Pension Plan. At June 30, 2015, the District reported a payable of \$2,826 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District's contributions to MPSERS for other postemployment benefits amounted to \$2,713 for the year ended June 30, 2015.

D. 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.

E. Other information

1. Contingencies

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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2015

2. Upcoming Accounting Pronouncements

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

Required Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Local sources	\$ 172,500	\$ 172,500	\$ 180,851
State sources	3,000	3,000	9,260
Federal sources	21,000	21,000	22,179
Indirect sources	<u>2,500</u>	<u>2,500</u>	<u> </u>
Total revenues	<u>199,000</u>	<u>199,000</u>	<u>212,290</u>
Expenditures			
Instruction	117,250	130,250	120,453
Support services:			
General administration	27,700	28,770	25,589
Operations and maintenance	13,000	14,770	14,065
Transportation	41,030	59,280	44,256
Capital outlay	<u>30,000</u>	<u>41,000</u>	<u>38,910</u>
Total expenditures	<u>228,980</u>	<u>274,070</u>	<u>243,273</u>
Net change in fund balance	(29,980)	(75,070)	(30,983)
Fund balance – beginning	<u>281,130</u>	<u>281,130</u>	<u>281,130</u>
Fund balance – ending	<u>\$ 251,150</u>	<u>\$ 206,060</u>	<u>\$ 250,147</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Required Supplementary Information

**Schedule of the District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan**

	<u>2014</u>
A. District's proportion of net pension liability	.00102%
B. District's proportionate share of net pension liability	\$ 255,763
C. District's covered-employee payroll	\$ 86,938
D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll	294.19%
E. Plan fiduciary net position as a percentage of total pension liability	66.20%

The amounts presented are determined as of the plan year ended September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Required Supplementary Information

**Schedule of the District's Contributions
Michigan Public School Employees Retirement Plan**

	<u>2015</u>
A. Statutorily required contributions	\$ 17,463
B. Contributions in relation to statutorily required contributions	17,463
C. Contribution deficiency (excess)	-
D. District's covered-employee payroll	79,341
E. Contributions as a percentage of covered-employee payroll	22.01%

The amounts presented are determined as of June 30.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Notes to Required Supplementary Information
For the Year Ended June 30, 2015**

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

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, 2015, 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 22, 2015.

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. 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 2015-001.

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 Finding

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 22, 2015

Grant Township School District No. 2

Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-001 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.

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, 2014

SIGNIFICANT DEFICIENCIES

2014-001 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, 2015, 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.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 22, 2015 on the financial statements of Grant Township School District No. 2. I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. My comments are summarized as follows.

- Language in Section 18(2) of the State School Aid Act requires local districts to post their annual operating budget and subsequent amendments on their website. The District has not done this. Any amendments to the budget which are approved by the board are required to be posted to the website. The budget postings should include the General Appropriation Resolutions or budget with notation indicating when it was adopted by the school board. The Michigan Public School Accounting Manual, Section IV contains further details. The State School Aid Act, Section 18(2), requires districts to include a “Budget Transparency Reporting” link on each district’s homepage. Guidelines for this reporting may be found in the Michigan Public School Accounting Manual, Section II, C.05 at the following URL: http://www.michigan.gov/documents/sc-ii_13265_7.pdf. MDE Guidance related to Budget Transparency Reporting Requirements may be found at: http://www.michigan.gov/mde/0,4615,7-140-6530_6605-159882--,00.html.
- Every district receiving State School Aid is required to post Salary/Compensation Transparency Information on the District’s website. The District has not done this. The Michigan Department of Education (MDE) 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 receive federal funds, prospective recipients must have effective administrative and financial internal controls. Details regarding the required written procedures are described in 34 CFR Part 80, 2 CFR Part 225 and OMB Circular A-133 Compliance Supplement Part 6. The District does not have written procedures. The procedures should include provisions for training, and the consequences for compliance failures. Policies do not take the place of procedures. Districts should not continue to expect federal funds if they are unwilling or unable to develop written procedures.

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 22, 2015

October 22, 2015

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, 2015. 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 21, 2015. 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. As described in Note I to the financial statements, the Grant Township School District No. 2 implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. I noted no transactions entered into by Grant Township School District No. 2 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. The estimates are 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 the 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 22, 2015.

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 Grant Township School District No. 2’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with 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 Grant Township School District No. 2’s auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

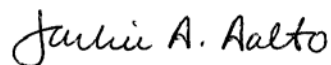
Other Matters

I applied certain limited procedures to the management’s discussion and analysis, budgetary comparison schedule, schedule of the District’s proportionate share of the net pension liability and schedule of the District’s pension contributions, which are required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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,



Jackie A. Aalto, CPA