

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**FINANCIAL REPORT**

**Year Ended June 30, 2016**

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**FINANCIAL REPORT  
Year Ended June 30, 2016**

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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, 2016, 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, 2016, 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 required supplementary information, 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 10, 2016, 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

Calumet, Michigan  
October 10, 2016

## GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

### Management's Discussion and Analysis

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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, 2016. 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 \$223,709 (net position). Of this amount \$8,839 (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 \$223,773, a decrease of \$26,374 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 did decrease by \$38,230.

The table below provides a summary of the District’s net position as of June 30, 2016 and 2015:

|  | <u>Governmental Activities</u> |                   |
|--|--------------------------------|-------------------|
|  | <u>2016</u>                    | <u>2015</u>       |
| Assets:  |                                |                   |
| Current and other assets                                 | \$ 269,314                     | \$ 288,391        |
| Capital assets, net of accumulated depreciation          | <u>214,870</u>                 | <u>229,844</u>    |
| Total assets   | <u>484,184</u>                 | <u>518,235</u>    |
| Total deferred outflows of resources related to pensions | <u>32,432</u>                  | <u>22,780</u>     |
| Liabilities:   |                                |                   |
| Other liabilities  | 35,946                         | 28,355            |
| Net pension liability                                    | <u>244,683</u>                 | <u>225,763</u>    |
| Total liabilities  | <u>280,629</u>                 | <u>254,118</u>    |
| Total deferred inflows of resources related to pensions  | <u>12,278</u>                  | <u>24,958</u>     |
| Net Position:  |                                |                   |
| Net investment in capital assets                         | 214,870                        | 229,844           |
| Unrestricted   | <u>8,839</u>                   | <u>32,095</u>     |
| Total net position                                       | <u>\$ 223,709</u>              | <u>\$ 261,939</u> |

The \$8,839 in unrestricted net position of governmental activities represents the accumulated results of all past years’ operations. 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, 2016 and 2015:

|                                    | <u>Governmental Activities</u> |                   |
|------------------------------------|--------------------------------|-------------------|
|                                    | <u>2016</u>                    | <u>2015</u>       |
| Revenues:                          |                                |                   |
| Program revenues:                  |                                |                   |
| Charges for services               | \$ 0                           | \$ 2,500          |
| Operating grants and contributions | 22,501                         | 22,321            |
| Capital grants and contributions   |                                |                   |
| General revenues:                  |                                |                   |
| Property taxes                     | 172,821                        | 177,984           |
| State sources                      | 11,530                         | 9,260             |
| Investment earnings                | <u>574</u>                     | <u>685</u>        |
| Total revenues                     | <u>207,426</u>                 | <u>212,750</u>    |
| Expenses:                          |                                |                   |
| Instruction                        | 148,559                        | 125,761           |
| Support services                   | <u>97,097</u>                  | <u>98,244</u>     |
| Total expenses                     | <u>245,656</u>                 | <u>224,005</u>    |
| Change in net position             | (38,230)                       | (11,255)          |
| Net position - beginning           | <u>261,939</u>                 | <u>273,194</u>    |
| Net position – ending              | <u>\$ 223,709</u>              | <u>\$ 261,939</u> |

As reported in the statement of activities, the cost of governmental activities was \$245,656. 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 \$223,773.

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

## Capital Assets

At June 30, 2016, the District had \$214,870 invested in capital assets.

|                           | Governmental Activities |                   |
|---------------------------|-------------------------|-------------------|
|                           | 2016                    | 2015              |
| Building and improvements | \$ 235,086              | \$ 235,086        |
| Vehicle                   | 82,252                  | 81,612            |
| Equipment                 | <u>18,514</u>           | <u>18,514</u>     |
| Total capital assets      | 335,852                 | 335,212           |
| Accumulated depreciation  | <u>(120,982)</u>        | <u>(105,368)</u>  |
| Net capital assets        | <u>\$ 214,870</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 \$202,600 and \$207,720, respectively. Budgeted and actual expenditures for the General Fund were \$252,000 and \$234,094, 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 2016.

## 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, 2016**

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|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                   |                                    |
| Cash  | \$ 180,052                         |
| Investments                                     | 74,828                             |
| Receivables                                     | 14,434                             |
| Capital assets, net of accumulated depreciation | <u>214,870</u>                     |
| Total assets                                    | <u>484,184</u>                     |
| <b>Deferred Outflows of Resources</b>           |                                    |
| Deferred outflows related to pensions           | <u>32,432</u>                      |
| <b>Liabilities</b>                              |                                    |
| Accounts payable and other current liabilities  | 7,768                              |
| Intergovernmental payable                       | 28,178                             |
| Net pension liability                           | <u>244,683</u>                     |
| Total liabilities                               | <u>280,629</u>                     |
| <b>Deferred Inflows of Resources</b>            |                                    |
| Deferred inflows related to pensions            | <u>12,278</u>                      |
| <b>Net Position</b>                             |                                    |
| Net investment in capital assets                | 214,870                            |
| Unrestricted                                    | <u>8,839</u>                       |
| Total net position                              | <u>\$ 223,709</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, 2016**

| <u>Functions/Programs</u>            | <u>Program Revenues</u> |                                 |   | <u>Net (Expense) Revenue<br/>and Changes in Net Position</u> |   |
|--------------------------------------|-------------------------|---------------------------------|---|--|---|
|                                      | <u>Expenses</u>         | <u>Charges for<br/>Services</u> | <u>Operating Grants<br/>&amp; Contributions</u> |  | <u>Capital Grants<br/>&amp; Contributions</u> |
| Governmental activities              |                         |                                 |   |  |   |
| Instruction                          | \$ 148,559              | \$                              | \$ 22,139                                       | \$   | \$ (126,420)                                  |
| Support services                     | <u>97,097</u>           | <u>          </u>               | <u>362</u>                                      | <u>          </u>  | <u>(96,735)</u>                               |
| Total governmental activities        | <u>\$ 245,656</u>       | <u>\$</u>                       | <u>\$ 22,501</u>                                | <u>\$</u>  | <u>(223,155)</u>                              |
|                                      |                         |                                 |   |  |   |
| General revenues:                    |                         |                                 |   |  |   |
| Property taxes                       |                         |                                 |   |  | 172,821                                       |
| State sources - unrestricted         |                         |                                 |   |  | 11,530  |
| Unrestricted investment earnings     |                         |                                 |   |  | <u>574</u>                                    |
| Total general revenues               |                         |                                 |   |  | <u>184,925</u>                                |
| Change in net position               |                         |                                 |   |  | (38,230)                                      |
| Net position as restated – beginning |                         |                                 |   |  | <u>261,939</u>                                |
| Net position – ending                |                         |                                 |   |  | <u>\$ 223,709</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, 2016**

|   | <u>General Fund</u> |
|---|---------------------|
| <b>Assets</b>   |                     |
| Cash  | \$ 180,052          |
| Investments   | 74,828              |
| Receivables:  |                     |
| Taxes   | 14,403              |
| Interest  | <u>31</u>           |
| Total assets  | <u>\$ 269,314</u>   |
| <b>Liabilities</b>  |                     |
| Accounts payable  | \$ 3,967            |
| Accrued salaries and other liabilities                                    | 3,801               |
| Intergovernmental payable   | <u>28,178</u>       |
| Total liabilities   | 35,946              |
| <b>Deferred Inflows of Resources</b>                                      |                     |
| Unavailable revenue   | 9,595               |
| <b>Fund Balance</b>   |                     |
| Assigned for transportation   | \$ 10,000           |
| Unassigned  | <u>213,773</u>      |
| <b>Total liabilities, deferred inflows of resources, and fund balance</b> | <u>\$ 269,314</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   | \$ 223,773        |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$335,852 and the accumulated depreciation is \$120,982.                        | 214,870           |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund.  | 9,595             |
| 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   | \$ (244,683)      |
| Deferred outflows related to the net pension liability  | 32,432            |
| Deferred inflows related to the net pension liability   | (5,630)           |
| Deferred inflows related to state pension funding   | <u>(6,648)</u>    |
| Net position of governmental activities   | <u>\$ 223,709</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, 2016**

|   | <u>General Fund</u> |
|---|---------------------|
| <b>Revenues</b>   |                     |
| Local sources   | \$ 174,051          |
| State sources   | 11,530              |
| Federal sources   | <u>22,139</u>       |
| Total revenues  | <u>207,720</u>      |
| <b>Expenditures</b>   |                     |
| Current   |                     |
| Instruction   | 150,473             |
| Support services:   |                     |
| General administration  | 25,339              |
| Operations and maintenance  | 14,767              |
| Transportation  | 42,875              |
| Capital outlay  | <u>640</u>          |
| Total expenditures  | <u>234,094</u>      |
| <b>Net change in fund balance</b>   | (26,374)            |
| <b>Fund balance – beginning</b>   | <u>250,147</u>      |
| <b>Fund balance – ending</b>  | <u>\$ 223,773</u>   |
| <br><b>Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance<br/>of the Governmental Fund to the Statement of Activities</b>   |                     |
| Amounts reported for governmental activities in the statement of activities<br>are different because:   |                     |
| Net change in fund balance – Governmental Fund  | \$ (26,374)         |
| Governmental funds report capital outlays as expenditures. However, in<br>the statement of activities, the cost of those assets is allocated over their<br>estimated useful lives and reported as depreciation expense. This is the<br>amount by which depreciation exceeded capital outlays in the current period. | (14,974)            |
| Revenues in the statement of activities that do not provide current financial<br>resources are not reported as revenues in the fund.  | (294)               |
| Revenue in support of pension contributions made subsequent to measurement<br>date.   | (6,648)             |
| Change in net pension liability and related deferred amounts  | <u>10,060</u>       |
| Change in net position of governmental activities   | <u>\$ (38,230)</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, 2016

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#### 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, 2016

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#### **D. Basis of presentation – fund financial statements**

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

#### **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, 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**

##### ***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 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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to the Financial Statements

June 30, 2016

**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, 2016.

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 the government-wide statement of net position. These amounts are expensed in the plan year in which it applies.

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 category. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental fund balance sheet. The governmental fund reports unavailable revenue from property taxes that are not collected during the period of availability. These amounts are deferred

## GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

### Notes to the Financial Statements

June 30, 2016

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and recognized as an inflow of resources in the period that the amounts become available. The second item is deferred inflows related to the pension plan (\$5,630) and the revenue in support of pension payments made subsequent to the measurement date (\$6,648).

#### ***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. For this purpose, 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.

#### ***5. Net position flow assumption***

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g. 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.

#### ***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.



## GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

### Notes to the Financial Statements

June 30, 2016

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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.

### **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, 2016, the District levied 5.2000 mills on non-principal residences and commercial personal property. Property taxes collected more than 60 days after June 30, 2016 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

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

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districts based on information supplied by the districts. For the year ended June 30, 2016 the foundation allowance was based on pupil membership counts taken in October of the current year and February 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 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 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, 2016 the District's carrying amount of cash and investments (certificates of deposit only) was \$254,880 with a corresponding bank balance of \$255,943, 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.

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

**B. Capital assets**

Capital asset activity for the year ended June 30, 2016 was as follows:

**Primary government**

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
| <b>Governmental activities</b>              |                              |                    |                  |                           |
| Capital assets being depreciated:           |                              |                    |                  |                           |
| Building and improvements                   | \$ 235,086                   | \$                 | \$               | \$ 235,086                |
| Vehicle                                     | 81,612                       | 640                |                  | 82,252                    |
| Equipment                                   | <u>18,514</u>                |                    |                  | <u>18,514</u>             |
| Total capital assets being depreciated      | <u>335,212</u>               | <u>640</u>         |                  | <u>335,852</u>            |
| Accumulated depreciation:                   |                              |                    |                  |                           |
| Building and improvements                   | (26,706)                     | (7,770)            |                  | (34,476)                  |
| Vehicle                                     | (64,333)                     | (6,954)            |                  | (71,287)                  |
| Equipment                                   | <u>(14,329)</u>              | <u>(890)</u>       |                  | <u>(15,219)</u>           |
| Total accumulated depreciation              | <u>(105,368)</u>             | <u>(15,614)</u>    |                  | <u>(120,982)</u>          |
| Governmental activities capital assets, net | <u>\$ 229,844</u>            | <u>\$ (14,974)</u> | <u>\$</u>        | <u>\$ 214,870</u>         |

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

|  |                  |
|--|------------------|
| Governmental activities                              |                  |
| Instruction  | \$ 890           |
| Operations and maintenance                           | 7,770            |
| Transportation                                       | <u>6,954</u>     |
| Total depreciation expense – governmental activities | <u>\$ 15,614</u> |

**C. Retirement plan – Michigan Public School Employees Retirement System**

*General information about the pension plan*

**Plan Description**

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

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

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The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System’s financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member’s rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

**Contributions and Funded Status**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

| <b>Pension Contribution Rates</b> |               |                 |
|-----------------------------------|---------------|-----------------|
| <u>Benefit Structure</u>          | <u>Member</u> | <u>Employer</u> |
| Basic                             | 0.0 - 4.0%    | 22.52 - 23.07%  |
| Member Investment Plan            | 3.0 - 7.0     | 22.52 -23.07    |
| Pension Plus                      | 3.0 - 6.4     | 21.99           |
| Defined Contribution              | 0.0           | 17.72 - 18.76   |

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

The District's required and actual contributions to the plan for the year ended June 30, 2016 were \$29,306. This amount includes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

At June 30, 2016, the District reported a liability of \$244,683 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .001002 percent, which remained relatively unchanged from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$19,384. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between actual and expected experience  | \$ -                                      | \$ (810)                                 |
| Changes of assumptions  | 6,025                                     | -  |
| Net difference between projected and actual earnings on pension plan investments                              | 1,249                                     | -  |
| Changes in proportion and differences between District contributions and proportionate share of contributions | -   | (4,820)                                  |
| District contributions subsequent to the measurement date   | <u>25,158</u>                             | <u>-</u>                                 |
| Total   | <u>\$ 32,432</u>                          | <u>\$ (5,630)</u>                        |

\$25,158 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Plan Year Ending<br/>September 30</u> | <u>Amount</u> |
|--|---------------|
| 2016                                     | \$ (610)      |
| 2017                                     | \$ (610)      |
| 2018                                     | \$ (937)      |
| 2019                                     | \$ 3,801      |

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

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**Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

|                                     |   |
|-------------------------------------|---|
| Valuation Date:                     | September 30, 2014  |
| Actuarial Cost Method:              | Entry Age, Normal   |
| Wage Inflation Rate:                | 3.5%  |
| Investment Rate of Return:          |   |
| - MIP and Basic Plans (Non-Hybrid): | 8.0%  |
| - Pension Plus Plan (Hybrid):       | 7.0%  |
| Projected Salary Increases:         | 3.5 - 12.3%, including wage inflation at 3.5%   |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members  |
| Mortality:                          | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

*Notes:*

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.7158 for non-university employers 1.3923 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).*

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

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**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

| <u>Asset Class</u>                   | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return*</u> |
|--------------------------------------|--------------------------|--|
| Domestic Equity Pools                | 28.0%                    | 5.9%   |
| % Alternative Investment Pools       | 18.0                     | 9.2  |
| International Equity                 | 16.0                     | 7.2  |
| Fixed Income Pools                   | 10.5                     | .9   |
| Real Estate and Infrastructure Pools | 10.0                     | 4.3  |
| Absolute Return Pools                | 15.5                     | 6.0  |
| Short Term Investment Pools          | 2.0                      | 0.0  |
| TOTAL                                | 100.0%                   |  |

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

**Discount Rate**

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**

**Notes to the Financial Statements**

**June 30, 2016**

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**Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate**

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

| 1% Decrease<br>(Non-Hybrid/Hybrid)* | Current Single Discount Rate Assumption<br>(Non-Hybrid/Hybrid)* | 1% Increase<br>(Non-Hybrid/Hybrid)* |
|-------------------------------------|---|-------------------------------------|
| <u>7.0% / 6.0%</u>                  | <u>8.0% / 7.0%</u>  | <u>9.0% / 8.0%</u>                  |
| \$ 315,459                          | \$244,683   | \$ 185,016                          |

*\* University employers provide non-hybrid plans only. For non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

**Michigan Public School Employees’ Retirement System (MPERS) Fiduciary Net Position**

Detailed information about the plan’s fiduciary net position is available in the separately issued MPERS CAFR at [www.michigan.gov/documents/orsschools/MPERS\\_CAFR\\_2015\\_Final\\_510211\\_7.pdf](http://www.michigan.gov/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf).

**Payables to the Michigan Public School Employees’ Retirement System (MPERS)**

At year end, the District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are included in the financial statements as a liability titled intergovernmental payable. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization rate.

***Other Postemployment Benefits***

Under the MPERS act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage through MPERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for part B Medicare and 10.00%, or 20.00% for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS 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 ranged from 2.20% to 2.71% of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.40% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee’s date of hire and plan election as noted above. Members can choose to contribute 3.00% of covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.00% 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 2.00% employee



## GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

### Notes to the Financial Statements

June 30, 2016

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contribution into their 457 account as of their transition date and create a 2% employer match into the employees 403(b) account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016 and 2015 were \$7,967 and \$2,713, respectively. In addition, a portion ranging from 35.00% to 100.00% of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

#### **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.

##### ***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, 2016**

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|                                   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     |
|-----------------------------------|----------------------------|-------------------------|-------------------|
| <b>Revenues</b>                   |                            |                         |                   |
| Local sources                     | \$ 175,400                 | \$ 175,400              | \$ 174,051        |
| State sources                     | 3,000                      | 3,000                   | 11,530            |
| Federal sources                   | 21,700                     | 21,700                  | 22,139            |
| Indirect sources                  | <u>2,500</u>               | <u>2,500</u>            | <u>        </u>   |
| Total revenues                    | <u>202,600</u>             | <u>202,600</u>          | <u>207,720</u>    |
| <b>Expenditures</b>               |                            |                         |                   |
| Instruction                       | 147,350                    | 151,550                 | 150,473           |
| Support services:                 |                            |                         |                   |
| General administration            | 27,100                     | 28,850                  | 25,339            |
| Operations and maintenance        | 12,900                     | 17,800                  | 14,767            |
| Transportation                    | 45,500                     | 51,800                  | 42,875            |
| Capital outlay                    | <u>2,000</u>               | <u>2,000</u>            | <u>640</u>        |
| Total expenditures                | <u>234,850</u>             | <u>252,000</u>          | <u>234,094</u>    |
| <b>Net change in fund balance</b> | (32,250)                   | (49,400)                | (26,374)          |
| <b>Fund balance – beginning</b>   | <u>250,147</u>             | <u>250,147</u>          | <u>250,147</u>    |
| <b>Fund balance – ending</b>      | <u>\$ 217,897</u>          | <u>\$ 200,747</u>       | <u>\$ 223,773</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**

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|   | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| A. District's proportion of net pension liability   | .001002%    | .001002%    |
| B. District's proportionate share of net pension liability  | \$ 244,683  | \$ 225,763  |
| C. District's covered-employee payroll  | \$ 83,234   | \$ 86,938   |
| D. District's proportionate share of net pension liability<br>as a percentage of its covered-employee payroll | 293.97%     | 259.68%     |
| E. Plan fiduciary net position as a percentage of total<br>pension liability                                  | 63.17%      | 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**

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|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| A. Statutorily required contributions                              | \$ 29,306   | \$ 17,463   |
| B. Contributions in relation to statutorily required contributions | 29,306      | 17,463      |
| C. Contribution deficiency (excess)                                | -           | -           |
| D. District's covered-employee payroll                             | 120,082     | 79,341      |
| E. Contributions as a percentage of covered-employee payroll       | 24.40%      | 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 the Required Supplementary Information  
For the Year Ended June 30, 2016**

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**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, 2016, 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 10, 2016.

**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 as item 2016-001 in the accompanying schedule of findings and responses, which I consider to be a significant deficiency.

**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

Calumet, Michigan  
October 10, 2016

**Grant Township School District No. 2**

**Schedule of Findings and Responses**

**For the Year Ended June 30, 2016**

2016-001 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, 2015**

SIGNIFICANT DEFICIENCIES

2015-001 Lack of Segregation of Incompatible Duties

*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.