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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

KEWEENAW COUNTY

COPPER HARBOR, MICHIGAN 49918

FINANCIAL STATEMENTS

For the Year Ended June 30, 2018



Susan D Sanford, CPA PLLC 3303 Silver Lake Road, Traverse City, MI 49684

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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
KEWEENAW COUNTY

Board of Education

Miranda Davis
President

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Chris Musiel
Treasurer

Staci Gibson
Trustee

Pat Walters
Trustee



Grant Township School District No. 2

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GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	11
Statement of Activities.....	12
Governmental Fund Financial Statements	
Balance Sheet.....	13
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Change in Fund Balance to the Statement of Activities	16
NOTES TO FINANCIAL STATEMENTS	17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules - General Fund	42
MPSERS Cost-Sharing Multiple Employer Plan	
Schedule of District’s Proportionate Share of the Net Pension Liability.....	43
Schedule of the District’s Pension Contributions	43
Schedule of District’s Proportionate Share of the Net Other Postemployment Benefit Liability	44
Schedule of the District’s Other Postemployment Benefit Contributions	44
OTHER REPORTS	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46
Schedule of Findings and Responses	48
Schedule of Prior Findings.....	52



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-American Association of
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-Certified Fraud Examiners
Association

-Michigan Association of
Certified Public Accountants

Independent Auditor's Report

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918

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 (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District'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 of 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 District'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.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918
Page 2

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 the Grant Township School District as of June 30, 2018, 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

Change in Accounting Principle

As discussed in Note 10 to the basic financial statements, the District implemented the provisions of GASB Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. My opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budget comparison information, and the schedules for the pension and other postemployment benefits plan 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.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, I have also issued my report dated October 30, 2018 on my consideration of the 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.



Susan D Sanford, CPA PLLC
Traverse City, Michigan 49684

October 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Using this Annual Report

Our discussion and analysis of Grant Township School District No. 2 (the "District") is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the District's financial activity; c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges; d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Financial Highlights

- The District's total net position decreased \$36,238 (32 percent) as a result of this year's operations.
- The net position at the end of the fiscal year was a \$77,795. There was an unrestricted deficit of \$134,191 included in this balance. The deficit was created when the net pension and net other postemployment liabilities and deferred amounts were recognized, which totaled \$323,947.
- The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. This resulted in a reduction of the beginning net position of \$97,779.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$157,389 which represents 62 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the Financial Statements

This annual report consists of three parts--management's discussion and analysis (this section), the basic financial statements (including the notes to the financial statements), and required supplemental information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status. These statements report information about the District, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expense are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the District's net position and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities report information about the District, as a whole, and about its activities in a way that helps answer the question of whether the District, as a whole, is better off or worse off as a result of the year's activities. The two statements, mentioned above, report the District's net position and how it has changed. The reader can think of the District's net position (the difference between assets and liabilities) as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

Report the District's Major Fund

The fund financial statements begin with the Statement of Net Position and provide detailed information about the major fund. The District has only one fund (general fund) in which all of the District's activities are accounted.

Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the District as a Whole

Condensed Statement of Net Position

	2017 (as adjusted)	2018	Variance	%
Assets				
Current and other assets	\$ 251,712	\$ 208,772	\$ (42,940)	-17.06%
Capital assets	218,683	211,986	(6,697)	-3.06%
Total assets	<u>470,395</u>	<u>420,758</u>	<u>(49,637)</u>	<u>-10.55%</u>
Deferred outflows of resources	<u>63,564</u>	<u>85,747</u>	<u>22,183</u>	<u>34.90%</u>
Liabilities				
Other liabilities	21,443	19,016	(2,427)	-11.32%
Long-term liabilities	286,908	375,590	88,682	30.91%
Total liabilities	<u>308,351</u>	<u>394,606</u>	<u>86,255</u>	<u>27.97%</u>
Deferred inflows of resources	13,796	34,104	20,308	147.20%
Net position				
Net invested in capital assets	218,683	211,986	(6,697)	-3.06%
Unrestricted (deficit)	(104,650)	(134,191)	(29,541)	-28.23%
Total net position	<u>\$ 114,033</u>	<u>\$ 77,795</u>	<u>\$ (36,238)</u>	<u>-31.78%</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$77,795 at the close of 2018.

By far the largest portion of the District's net position reflects its investment in capital assets, which was \$211,986, there is no debt associated with the capital assets. The unrestricted net position had a deficit of \$134,191. The deficit in District's net position includes a net pension liability and related deferred inflows and outflows of \$231,286. The deficit was also increased during 2018 with the adoption of GASB 75 for recognition of net OPEB liability and related deferrals of \$92,66. The unrestricted net position balance, excluding the effects of these pronouncements enables the District to meet working capital cash flow requirements, as well as to provide for future uncertainties. The operating results of General Fund will have a significant impact on the changes in unrestricted net position from year to year.

The District's net position decreased by \$36,238 during 2018.

Condensed Statement of Activities

	<u>2017</u>	<u>2018</u>	<u>Variance</u>	<u>Percentage</u>
Program revenue				
Charges for services	\$ 3,500	\$ 2,500	\$ (1,000)	-28.57%
Operating grants and contributions	18,429	19,849	1,420	7.71%
Nonoperating revenue				
Property taxes	175,045	172,312	(2,733)	-1.56%
State sources	15,277	16,439	1,162	7.61%
Investment earnings	566	541	(25)	-4.42%
Total revenue	<u>212,817</u>	<u>211,641</u>	<u>(1,176)</u>	<u>-0.55%</u>
Operating expense				
Instruction	131,763	138,667	6,904	5.24%
Support services	92,951	109,212	16,261	17.49%
Total operating expense	<u>224,714</u>	<u>247,879</u>	<u>23,165</u>	<u>10.31%</u>
Increase (decrease) in net position	<u>(11,897)</u>	<u>(36,238)</u>	<u>(24,341)</u>	<u>204.60%</u>
Beginning net position	<u>223,709</u>	<u>114,033</u>	<u>(109,676)</u>	<u>-49.03%</u>
Ending net position	<u>\$ 114,033 *</u>	<u>\$ 77,795</u>	<u>\$ (36,238)</u>	<u>-31.78%</u>

* includes restatement of \$97,779 due to OPEB accounting change.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

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.

	2017	2018	Amount Difference	Percentage Difference
Revenues				
Local sources	\$ 178,476	\$ 169,723	\$ (8,753)	-5%
State sources	15,277	8,196	(7,081)	-46%
Federal sources	17,912	6,102	(11,810)	-66%
Inter-district sources	3,500	2,500	(1,000)	-29%
Total revenues	215,165	186,521	(28,644)	-13%
Expenditures				
Instruction	121,388	148,821	27,433	23%
Support services:				
General administration	25,274	38,217	12,943	51%
Operations and maintenance	14,429	14,066	(363)	-3%
Transportation	34,903	47,637	12,734	36%
Capital outlay	19,922	3,413	(16,509)	-83%
Total expenditures	215,916	252,154	36,238	17%
Excess of revenues over (under) expenditures	(751)	(65,633)	(64,882)	8639%
Beginning fund balance	223,773	223,022	(751)	0%
Ending fund balance	\$ 223,022	\$ 157,389	\$ (65,633)	-29%

The decrease in state and federal revenue was due to fact that the receivables were not "currently available" as they were not collected within 60 days after the fiscal year end. The receivables were recorded with an offset to "Deferred Inflow of Resources" in the amount of \$21,984. Once the receivables are collected they will be recognized as revenue in the period received. The expenditures increased in the general administration, primarily due to an increase in salaries and related fringes. There was also an increase in the teacher salaries and related payroll liabilities due to a turnover in the position. The Transportation expenses increased due to more hours, more miles driven, and repairs and maintenance of the bus.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Budgetary Highlights

Prior to the beginning of any year, the District's budget is compiled based upon certain assumptions and facts available at that time. During the year, the District's Board of Education acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled.

Budgeted and actual revenues for the General Fund were \$202,200 and \$186,521. The revenue budgeted was not amended during the year. Final amended and actual expenditures for the General Fund were \$271,610 and \$252,154, respectively. The original expenditure budget was \$229,750 and was amended throughout the year as needed.

Capital Asset Administration

The District's investment in capital assets at June 30, 2018, amounts to \$211,986 (net of accumulated depreciation). The net decrease in the District's net investments in capital assets for the current fiscal year was \$6,697, as depreciation expense was \$10,110 and additions were \$3,413. Capital asset additions during the current fiscal year included the purchase of one laptop and two (2) desktop computers and four (4) iPads.

Long-Term Obligations

The District had no long-term debt at the beginning or end of the current fiscal year.

Economic Factors and Next Year's Budget

The District depends primarily on local non-principal residence property taxes to fund its operations. Based on information currently available, there will be a slight increase expected to occur in the nature of the funding for operations of the District in 2018/2019.

Contacting the Road Commission's Management

This financial report is intended to provide a general overview of the District's finances to those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ms. Miranda Kilpela Davis, P.O. Box 74, Copper Harbor, Michigan 49918.

BASIC FINANCIAL STATEMENTS

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Cash	\$ 122,436
Investments	44,804
Receivables	39,794
Prepaid expenses	1,738
Capital assets being depreciated, net	211,986
Total assets	420,758

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension amounts	78,167
Deferred other postemployment benefit amounts	7,580
Total deferred outflows of resources	85,747

LIABILITIES

Accounts payable and accrued liabilities	13,895
Due to other governments	5,121
Net pension liability	278,627
Other postemployment benefits liability	96,963
Total liabilities	394,606

DEFERRED INFLOWS OF RESOURCES

Deferred pension amounts	30,826
Deferred other postemployment benefit amounts	3,278
Total deferred inflows of resources	34,104

NET POSITION

Investment in capital assets, net of related debt	211,986
Unrestricted (deficit)	(134,191)
Total net position	\$ 77,795

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, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 138,667	\$ -	\$ 19,449	\$ (119,218)
Supporting services	109,212	2,500	400	(106,312)
Total governmental activities	\$ 247,879	\$ 2,500	\$ 19,849	\$ (225,530)

General revenues:

Property taxes	\$ 172,312
State sources - unrestricted	16,439
Unrestricted investment earnings	541

Total general revenues 189,292

Change in net position (36,238)

Net position beginning of year, as restated 114,033

Net position, end of year \$ 77,795

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
BALANCE SHEET
June 30, 2018

<u>Assets</u>	<u>General Fund</u>
Cash	\$ 122,436
Investments	44,804
Receivables:	
Taxes	13,959
Interest	34
Due from other governments	25,801
Prepaid expenses	1,738
Total assets	<u>\$ 208,772</u>
 <u>Liabilities, Deferred Inflow of Resources and Fund Balance</u>	
Liabilities	
Accounts payable	\$ 1,073
Accrued salaries and other liabilities	12,822
Due to other governments	5,121
Total liabilities	<u>19,016</u>
Deferred inflow of resources	
Property taxes	10,383
State and federal revenues	21,984
Total deferred inflow of resources	<u>32,367</u>
Fund balance	
Restricted fund balance	
Nonspendable	
Prepaid expense	1,738
Unrestricted fund balance	
Assigned for transportation	20,000
Unassigned	135,651
Total fund balance	<u>157,389</u>
Total liabilities, deferred inflow of resources and fund balance	<u>\$ 208,772</u>

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2018

Total governmental fund balance \$ 157,389

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the fund.

Capital assets	\$ 359,187	
Accumulated depreciation	<u>(147,201)</u>	211,986

Some assets are not available to pay for current-period expenditures. Those assets are offset by deferred inflows of resources in the governmental funds and are not included in fund balance

Property taxes	10,383	
State and federal grant	<u>21,984</u>	32,367

Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit 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	(278,627)	
Net other postemployment benefit liability	(96,963)	
Deferred outflows related to net pension liability	78,167	
Deferred inflows related to net pension liability	(30,826)	
Deferred outflows related to net other postemployment benefit liability	7,580	
Deferred inflows related to net other postemployment benefit liability	<u>(3,278)</u>	(323,947)

Net position of governmental activities		<u><u>\$ 77,795</u></u>
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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
For the Year Ended June 30, 2018

	General Fund
Revenues	
Local sources	\$ 169,723
State sources	8,196
Federal sources	6,102
Inter-district sources	2,500
	186,521
Total revenues	
Expenditures	
Current	
Instruction	148,821
Support services	99,920
Capital outlay	3,413
	252,154
Total expenditures	
Revenues over (under) expenditures	(65,633)
Net change in fund balance	(65,633)
Fund balance--beginning	223,022
	223,022
Fund balance--ending	\$ 157,389

The Notes to Financial Statements are an integral part of this statement.

**GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018**

Net Change in Fund Balance--Total Governmental Fund \$ (65,633)

Amounts reported for governmental activities in the statement of
Capital assets used in governmental activities are not financial
resources and are not reported in the fund.

Capital assets purchased	\$ 3,413	
Depreciation expense	<u>(10,110)</u>	(6,697)

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in the
governmental fund

Federal grant	21,590	
Property taxes	<u>3,530</u>	25,120

Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore are
not reported as expenditures in governmental funds.

Change in net pension liability and related deferred amounts	5,854	
Change in other postemployment benefits and related deferred amounts	<u>5,118</u>	<u>10,972</u>

Change in net position of governmental activities \$ (36,238)

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements of Grant Township School District No. 2 (the “District”), Keweenaw County, were prepared in accordance with accounting principles generally accepted in the United States of America for governmental units. The following is a summary of the more significant policies and should be viewed as an integral part of this report:

A - Reporting Entity

The District is governed by an elected five-member Board of Education. The District has determined that no entities should be consolidated into the basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relations with the District.

B - Financial Statement Presentation

Government-Wide Financial Statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information of the activities of the District. There is only one fund reported in the government-wide financial statements. The General Fund accounts for all of the financial resources of the District. It is the District’s only fund.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Program expenses* are those that are clearly identifiable with a specific function or segment. *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 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. Internally dedicated resources are reported as general revenues rather than as program revenues.

The Statement of Net Position presents the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference being reported as either invested in capital assets or restricted net position.

Fund Financial Statements. Separate financial statements are provided for the General Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C - Measurement Focus and Basis of Accounting

Government-Wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the District's policy is to first apply restricted resources.

D - Budgets and Budgetary Accounting

The governmental fund is under formal budgetary control. The budget is adopted at the function level and control is exercised at the function level 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. Budgeted revenues and expenditures, as presented in the financial statements, include any authorized amendments to the original budget as adopted. All annual appropriations lapse at year end. Encumbrance accounting is not utilized by the District.

E - Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. The District did not have any short-term investments at June 30, 2018. Investments are stated at fair value.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F – Receivables

Accounts receivable is primarily amounts due from other units of government. No allowance for uncollectible amounts was recorded.

G – Taxes Receivable

Property taxes are levied and becomes a lien as of December 1 on the taxable valuation of the property located within the District as of the preceding December 1st. Property taxes are payable without interest on or before February 14.

The 2017 taxable valuation was \$44,292,081, on which the Districted levied 5.1365 mills on non-principal residences and commercial personal property. Property taxes collected more than 60 days after June 30, 2018 are not recognized as revenue of the current year but rather as deferred inflow of resources in the Liabilities, Deferred Inflow of Resources, and Fund Balance section of the balance sheet. Amounts received subsequent to August 31 are recognized as revenue when collected.

H – Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

I - Capital Assets

Capital assets, which include property and improvements, buses and other vehicles, and furniture and other equipment are reported 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 and other electronic equipment with an initial cost of more than \$500. Capital assets are stated at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation

Depreciation is computed on the straight-line method over the following useful lives:

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

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J – Deferred Outflows 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 (expense/expenditure) until then. The District reports deferred outflows for the charge on refunding. The District reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

K – 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 government funds only if they have matured, for example, as a result of resignations or retirements.

L – Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or balance sheet 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 governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources (State and Federal grants and property taxes received past 60 days after year end). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources are related to pension and other postemployment benefit liabilities in the government-wide financial statements.

M - Pension

For purposes of measuring the net pension liability, deferred outflows and 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 the plan 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 when due and payable in accordance with the benefit terms. Investments are reported a fair value. The pension net liability and related deferred inflows/outflows and pension expense are reported in the government-wide financial statements.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N - Other Postemployment Benefit (OPEB) Costs

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) Plan and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at a fair value. The OPEB net liability and related deferred inflows/outflows and OPEB expense are reported in the government-wide financial statements.

O - Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental statement of net position. In the fund financial statements, debt is recognized as other financial sources received with no liability recorded. The District did not have any debt at June 30, 2018.

P - Fund Balance/Net Position

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

Restricted Fund Balance:

- Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Items such as inventory and prepaid expenses are included in this component.
- Restricted – Constraints placed on the use of resources are either externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation. The Primary and Local Fund Balances are restricted by Act 51 requirements.

Unrestricted Fund Balance:

- Committed – Amounts that can only be used for specific purposes pursuant to constrictions imposed by formal action of the District's Board of Education. Commitments are made and can be rescinded only via resolution of the board
- Assigned – Amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed.
- Unassigned – any remaining fund balance not included in any of the other four categories.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide financial statement net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The District may report three categories of net position as follows: (1) *investment of capital assets*, net of related debt; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal and state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the District.

Q - Fund Balance Flow Assumption

Sometimes the government 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 statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government'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.

R - Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted 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 government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

S – 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, 2018 the foundation allowance was based on pupil membership counts taken in October of the current year and February of the previous year.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T - Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2--BUDGETARY LEGAL COMPLIANCE

Budgetary Procedures

Budgetary procedures are established pursuant to Public act 2 of 1968, as amended (MCL 141.421), which requires the Board of Education to approve a budget for the District. Pursuant to the Act, the District's chief administrative officer prepares and submits a proposed operating budget to the Board of Education for its review and consideration. The Board of Education conducts a public budget hearing and subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting which is the same basis as the financial statements. The budget is reviewed and amended throughout the year.

NOTE 3--CASH DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91 (Public Act 20 of 1943, as amended), authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The District has designated three financial institutions for the deposit of its funds. The investment policy adopted by the District in accordance with Public Act 196 of 1997 has authorized investments permitted under Public Act 20 of 1943, as amended. The District's deposits and investment policies are in accordance with statutory authority.

At June 30, 2018, the District's deposits (there were no investments other than long-term certificates of deposits) were reported in the basic financial statements in the following categories:

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 3--CASH DEPOSITS AND INVESTMENTS (Continued)

	<u>Book Balance</u>	<u>Bank Balance</u>
Bank Deposits (Checking and Savings Accounts)	\$ 122,436	\$ 126,195
Certificates of Deposits	44,804	44,804
Total	<u>\$ 167,240</u>	<u>\$ 170,999</u>

All of the bank deposits and certificates of deposits were covered under the federal depository insurance no remaining balance was uncollateralized. At the year-end (and during the year) the District did not have any investments other than a certificate of deposits.

Investments Authorized by the District's Investment Policy. The District's investment policy authorizes investment in all those that are authorized by law. The District has limited its investments to uncategorized pooled investment funds.

Disclosures Relating to Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operating, thereby avoiding the need to sell securities on the open market prior to maturities.

Concentration of Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$0 of the bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

Concentration of Credit Risk-Investments. Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater. The District's investment policy minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 3--CASH DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the District's investment policy would limit, to some extent, exposure to custodial credit risk for deposits. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE 4--CAPITAL ASSETS

The following is a summary of the changes in the capital assets:

Primary government	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets being depreciated				
Building and improvements	\$ 255,008	\$ -	\$ -	\$ 255,008
Vehicle	82,252	-	-	82,252
Equipment	18,514	3,413	2,697	19,230
Total capital assets	355,774	3,413	2,697	356,490
Accumulated depreciation				
Building and improvements	43,029	8,767	-	51,796
Vehicle	78,241	525	-	78,766
Equipment	15,821	818	2,697	13,942
Total accumulated depreciation	137,091	10,110	2,697	144,504
Total capital assets being depreciated--net	218,683	(6,697)	-	211,986
Total net capital assets	\$ 218,683	\$ 3,413	\$ 10,110	\$ 211,986

Depreciation expense was charge to the following activities:

Governmental activities	
Insturction	\$ 818
Operations and maintenance	8,767
Transportation	525
Total depreciation expense	<u>\$ 10,110</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5--NET INVESTMENT IN CAPITAL ASSETS

The following summarizes the components of investment in capital assets, net of related debt reported in the Statement of Net Position at June 30, 2018:

Capital assets	
Depreciable, net	\$ 211,986
Related debt	<u> -</u>
Investment in capital assets, net	<u><u>\$ 211,986</u></u>

NOTE 6--EMPLOYEES' RETIREMENT PLAN

Summary of Significant Accounting Policies

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 when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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 on the ORS website at www.michigan.gov/orsschools.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6--EMPLOYEES' RETIREMENT PLAN (Continued)

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 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

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, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.0%	15.27%

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6--EMPLOYEES' RETIREMENT PLAN (Continued)

Required contributions to the pension plan from the District were \$25,219 for the year ended September 30, 2017.

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

At June 30, 2018, the District reported a liability of \$278,627 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. 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 contribution required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .00107519 percent, which was a decrease of .00007478 percent from its proportion measured as of September 30, 2016.

For the year ending June 30, 2018, the District recognized pension expense of \$31,528. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 2,421	\$ 1,367
Changes of assumptions	30,526	-
Net difference between projected and actual earnings on pension plan investments	-	13,320
Changes in proportion and differences between Employer contributions and proportionate share of contributions	21,209	16,139
Employer contributions subsequent to the measurement date	24,011	-
Total	<u>\$ 78,167</u>	<u>\$ 30,826</u>

Contributions subsequent to the measurement date 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, 2019.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6--EMPLOYEES' RETIREMENT PLAN (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 7,723
2019	12,782
2020	5,369
2021	(2,544)

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, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	7.5%
- 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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6--EMPLOYEES' RETIREMENT PLAN (Continued)

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, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: [4.5188 for non-university employers or 1.1222 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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, 2017, 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%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
Total	100.0%	

*Long-term rates of return are net of administrative excess and 2.3% inflation.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6--EMPLOYEES' RETIREMENT PLAN (Continued)

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% 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 7.5% (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.

Sensitivity of 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 7.5% (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 (Non-Hybrid/Hybrid)* 6.5%/6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5%-7.0%	1% Increase (Non-Hybrid/Hybrid)* 6.5%/6.0%
<u>\$ 362,959</u>	<u>\$ 278,627</u>	<u>\$ 207,626</u>

* 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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6--EMPLOYEES' RETIREMENT PLAN (Continued)

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position Payables to the Michigan Public School Employees' Retirement System (MPSERS)

At year end, the District had accounts payable of \$310 due to the MPSERS.

NOTE 7--POST-EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) 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.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 on the ORS website at www.michigan.gov/orsschools.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7--POST-EMPLOYMENT BENEFITS (Continued)

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2%

employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7--POST-EMPLOYMENT BENEFITS (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Contributions

At June 30, 2018, District reported a liability of \$96,963 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .00109495 percent, which did not change significantly from its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, the District recognized OPEB expense of \$3,278. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ 1,032
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,446
Changes in proportion and differences between Employer contributions and proportionate share of contributions	217	-
Employer contributions subsequent to the measurement date	<u>7,363</u>	<u>-</u>
Total	<u>\$ 7,580</u>	<u>\$ 3,478</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7--POST-EMPLOYMENT BENEFITS (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ (744)
2019	(744)
2020	(744)
2021	(744)
2022*	(85)*

*Year 2022 is required only for non-university employers.

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, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7--POST-EMPLOYMENT BENEFITS (Continued)

Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

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 OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: [5.4744 for non-university employers or 1.4186 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7--POST-EMPLOYMENT BENEFITS (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, 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%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
Total	100.0%	

*Long-term rates of return are net of administrative excess and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 7--POST-EMPLOYMENT BENEFITS (Continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease	Current	1% Increase
6.5%	Discount	8.5%
Rate 7.5%	Rate 7.5%	Rate 7.5%
\$113,572	\$96,963	\$82,867

Sensitivity of the District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current	1% Increase
6.5%	Healthcare	8.5%
Rate 7.5%	Cost Trend	Rate 7.5%
\$82,115	\$96,963	\$113,822

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

At June 30, 2018, there was \$133 payable to the OPEB Plan.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 8--CONTINGENT LIABILITIES

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; medical benefits provided to employees and natural disasters. The District has purchased commercial insurance for general liability, property and casualty, auto and workers compensation. As of June 30, 2018, there were no claims that exceeded insurance coverage. The District did not have any significant reduction in insurance coverage from previous years. Settled claims for the District have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 9—ECONOMIC DEPENDENCY

The Grant Township School District No. 2 receives a substantial amount of its revenues from property taxes. A significant reduction in the level of this support, if this were to occur, could have an effect on the Grant Township School District No. 2's ability to continue its activities.

NOTE 10--CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT OF NET POSITION

The financial statements for the year ended June 30, 2017 have been restated in order to adjust the total OPEB liability for future retiree healthcare in accordance with GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The effect of these new statements was to increase total OPEB liability and decrease net position in the governmental activities by \$5,061. The effect of this change is as follows:

Governmental Activities Net position –	
June 30, 2017- As previously reported	\$ 211,812
Adjustments:	
Net OPEB liability at June 30, 2017	(97,779)
Deferred outflows of resources for	
contributions made after plan year	<u>4,495</u>
Net position – June 30, 2017 - as restated	<u>\$114,033</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11--UPCOMING CHANGES IN ACCOUNTING STANDARDS

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. 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 2019-2020 fiscal year.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, Omnibus 2017, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). 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 2017-2018 fiscal year.

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, Certain Debt Extinguishment Issues, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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 2017-2018 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 2020-2021 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Local sources:				
Property taxes	\$ 172,500	\$ 172,500	\$ 168,782	\$ (3,718)
Interest earned	500	500	541	41
Donations	-	-	400	400
Total local sources	<u>173,000</u>	<u>173,000</u>	<u>169,723</u>	<u>(3,277)</u>
State Grants				
State Aid	<u>5,000</u>	<u>5,000</u>	<u>8,196</u>	<u>3,196</u>
Federal Grants				
REAP Grant	19,700	19,700	6,102	(13,598)
Title 1	2,000	2,000	-	(2,000)
Total federal grants	<u>21,700</u>	<u>21,700</u>	<u>6,102</u>	<u>(15,598)</u>
Inter-district sources	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>-</u>
Total revenues	<u>202,200</u>	<u>202,200</u>	<u>186,521</u>	<u>(15,679)</u>
Expenditures				
Instruction	<u>136,400</u>	<u>156,300</u>	<u>148,821</u>	<u>7,479</u>
Support services				
General administration	36,025	38,475	38,217	258
Operations and maintenance	12,825	18,372	14,066	4,306
Transportation	42,500	53,050	47,637	5,413
Total support services	<u>91,350</u>	<u>109,897</u>	<u>99,920</u>	<u>9,977</u>
Capital outlay	<u>2,000</u>	<u>5,413</u>	<u>3,413</u>	<u>2,000</u>
Total expenditures	<u>229,750</u>	<u>271,610</u>	<u>252,154</u>	<u>19,456</u>
Net change in fund balance	(27,550)	(69,410)	(65,633)	(35,135)
Fund balance, beginning of year	<u>223,022</u>	<u>223,022</u>	<u>223,022</u>	<u>-</u>
Fund balance, end of year	<u>\$ 195,472</u>	<u>\$ 153,612</u>	<u>\$ 157,389</u>	<u>\$ (35,135)</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
Pension Required Supplementary Information
MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of Net Pension Liability

	Year Ended September 30,			
	2014	2015	2016	2017
District's proportion of the net pension liability	\$ 225,763	\$ 244,683	\$ 286,908	\$ 278,627
District's proportionate share of the net pension liability	0.001002%	0.001002%	0.001150%	0.001075%
District's covered payroll	\$ 86,938	\$ 83,234	\$ 105,199	\$ 84,730
District's proportionate share of the net pension liability as a percentage of its covered payroll	259.68%	293.97%	272.73%	328.84%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%

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

Schedule of District's Pension Contributions

	Year Ended June 30,			
	2015	2016	2017	2018
Statutorily required contributions	\$ 17,463	\$ 29,306	\$ 23,289	\$ 25,219
Contributions in relation to statutorily required contributions	17,463	29,306	23,289	25,219
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	79,341	120,082	74,673	89,444
Contributions as a percentage of covered-employee payroll	22.01%	24.40%	31.19%	28.20%

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

Notes to Required Supplementary Information

Changes of benefit terms: There we no changes of benefits terms in FY 2017

Changes of benefit assumptions: There were no changes of benefit assumptions in FY 2017.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
Other Post Employment Benefit Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of Net OPEB Pension Liability

	Year Ended September 30,
	2017
District's proportion of the net OPEB liability	\$ 96,963
District's proportionate share of the net pension liability	0.001095%
District's covered payroll	\$ 84,730
District's proportionate share of the net pension liability as a percentage of its covered payroll	114.44%
Plan fiduciary net position as a percentage of the total pension liability	36.39%

Note: GASB 68 was implemented infiscal year 2018. This schedule is being built prospectively. Untimately, 10 years of data will be presented

Schedule of District's OPEB Contributions

	Year Ended June 30,
	2018
Statutorily required contributions	\$ 8,525
Contributions in relation to statutorily required contributions	8,525
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	89,444
Contributions as a percentage of covered-employee payroll	9.53%

Note: GASB 68 was implemented infiscal year 2018. This schedule is being built prospectively. Untimately, 10 years of data will be presented

Notes to Required Supplementary Information

Changes of benefit terms: There we no changes of benefits terms in FY 2017

Changes of benefit assumptions: There were no changes of benefit assumptions in FY 2017.

OTHER REPORTS



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-Michigan Association of
Certified Public Accountants

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
Copper Harbor, Michigan 49918

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 major fund Grant Township School District No. 2, as of and for the year ended June 30, 2018, 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 30, 2018.

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 Grant Township School District No. 2's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that I consider to be significant deficiencies, listed as findings 2018-1 and 2018-2.

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 one instance of noncompliance, described in the accompanying Schedule of Findings and Responses, listed as finding 2018-3 that is required to be reported under *Government Auditing Standards*.

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

The Grant Township School District No. 2's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. The 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 of an audit performed in accordance with *Government Auditing Standards* in considering Grant Township School District No. 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Susan D Sanford, CPA PLLC
Traverse City, Michigan

October 30, 2018

Grant Township School District No. 5

Schedule of Findings and Responses

For the Year Ended June 30, 2018

Finding 2018-1 Preparation of Financial Statements in Accordance with GAAP

Finding Type: Significant deficiency in internal control over financial reporting

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many similar-sized entities, the District has historically relied on its independent external auditors to assist in preparing the financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: The District has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result, the District lacks internal controls over the preparation of its financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: The District's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the District accepts responsibility for the financial statements. Therefore, no specific corrective action is required at this time.

View of Responsible Officials:

The District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditor, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Grant Township School District No. 5
Schedule of Findings and Responses
For the Year Ended June 30, 2018

**Finding 2018-02 Lack of Appropriate Segregation of Accounting Duties
(Repeat comment)**

Finding Type: Significant Deficiency in Internal Control over Financial Reporting

Criteria: Management is responsible for establishing effective internal controls to safeguard the District's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the District's unique circumstances.

Condition: As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Cause: This condition is a result of the District's limited resources, and the small size of its accounting staff.

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 prevented or detected by management in a timely manner.

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, we encourage the District to continue to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting function by qualified members of management as possible.

View of Responsible Officials:

We acknowledge the risk associated with internal control and issues with the segregation of the duties listed above. We have compensating controls in place where possible and will continue to monitor and mitigate risks periodically. While the governing board is always looking for way 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. 5
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Finding 2018-03 Adoption of annual budget; availability of information on website

Finding Type: Statutory Compliance

Criteria: Section 18(2) of the State School Aid Act requires the following:

(2) A district or intermediate district shall adopt an annual budget in a manner that complies with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a. Within 15 days after a district board adopts its annual operating budget for the following school fiscal year, or after a district board adopts a subsequent revision to that budget, the district shall make all of the following available through a link on its website homepage, or may make the information available through a link on its intermediate district's website homepage, in a form and manner prescribed by the department:

- (a) The annual operating budget and subsequent budget revisions.
- (b) Using data that have already been collected and submitted to the department, a summary of district expenditures for the most recent fiscal year for which they are available, expressed in the following 2 visual displays:
 - (i) A chart of personnel expenditures, broken into the following subcategories: (A) Salaries and wages. (B) Employee benefit costs, including, but not limited to, medical, dental, vision, life, disability, and long-term care benefits. (C) Retirement benefit costs. (D) All other personnel costs.
 - (ii) A chart of all district expenditures, broken into the following subcategories: (A) Instruction. (B) Support services. (C) Business and administration. (D) Operations and maintenance.
- (c) Links to all of the following:
 - (i) The current collective bargaining agreement for each bargaining unit.
 - (ii) Each health care benefits plan, including, but not limited to, medical, dental, vision, disability, long-term care, or any other type of benefits that would constitute health care services, offered to any bargaining unit or employee in the district.
 - (iii) The audit report of the audit conducted under subsection (4) for the most recent fiscal year for which it is available.
 - (iv) The bids required under section 5 of the public employees health benefit act, 2007 PA 106, MCL 124.75.
 - (v) The district's written policy governing procurement of supplies, materials, and equipment.
 - (vi) The district's written policy establishing specific categories of reimbursable expenses, as described in section 1254(2) of the revised school code, MCL 380.1254.
 - (vii) Either the district's accounts payable check register for the most recent school fiscal year or a statement of the total amount of expenses incurred by board members or employees of the district that were reimbursed by the district for the most recent school fiscal year.
- (e) The annual amount spent on dues paid to associations.
- (h) Identification of all credit cards maintained by the district as district credit cards, the identity of all individuals authorized to use each of those credit cards, the credit limit on each credit card, and the dollar limit, if any, for each individual's authorized use of the credit card.
- (i) Costs incurred for each instance of out-of-state travel by the school administrator of the district that is fully or partially paid for by the district and the details of each of those instances of out-of-state travel, including at least identification of each individual on the trip, destination, and purpose.

Grant Township School District No. 5
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Condition: The District lacks a sufficient number of administrative/accounting personnel in order to fully comply the above requirements.

Cause: This condition is a result of the District's limited resources, and the small size of its administrative/accounting staff.

Effect: As a result of this condition, the District is exposed to a withholding of up to 10% of the total state school aid due.

Recommendation: I recommend that the District discuss with their tech on how to download and link the information requested. The District has recently posted the budget information on the web. That is a good start. I recommend that the Board adopt written policies on procurement of supplies, material and equipment as well as a policy on reimbursable expenses and travel.

View of Responsible Officials:

We have already posted the budget and will continue to post budgets as we make amendments. We will work on getting the rest of the requirements posted to the web site and develop the recommended policies.

Grant Township School District No. 2

Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

SIGNIFICANT DEFICIENCIES

2017-001 Lack of Segregation of Incompatible Duties (repeat comment)

Criteria: Management is responsible for establishing and maintain 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.

Cause: The District has several transaction cycles that are performed by the same individual or are not subject to written independent review and approval.

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (weather 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 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,



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October 30, 2018

To the Board of Education
Grant Township School District #2
Copper Harbor, Michigan 49918

I have audited the accompanying financial statements of the governmental activities and the major fund of Grant Township School District No. 2 (the "District"), as of and for the year ended June 30, 2018. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and Government Auditing Standards, 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 9, 2018. Professional standards also require that I communicate to you the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated September 9, 2018, my responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities. My responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of my audit, I considered the internal control of the District. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

I am responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, I am not required to design procedures specifically to identify such matters.

My audit of the District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, I am obligated to communicate certain matters that come to my attention related to my audit to those responsible for the governance of the District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that I identify during my audit. I have issued a separate letter dated October 30, 2018 regarding my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you in my meeting about planning matters on September 9, 2018.

Qualitative Aspects of the District's Significant Accounting Practices

Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements.

As described in Note 10 to the financial statements, the District changed accounting policies related to accounting for other postemployment benefit ("OPEB") plans by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

I evaluated the key factors and assumptions used to develop this estimate in determining that they are reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include net pension and OPEB liabilities and other related amounts which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

The financial statement disclosures are neutral, consistent, and clear.

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 us 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.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918

October 30, 2018

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 30, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. 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 management's discussion and analysis, which is 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.

This information is intended solely for the use of the governing body and management of the Grant Township School District No. 2 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Susan D Sanford, CPA PLLC
Certified Public Accountant