

ARVON TOWNSHIP SCHOOL DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

June 30, 2008

ARVON TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2008

ADMINISTRATION

Superintendent Dennis Harbour

Principal Jennifer Lynn

BOARD OF EDUCATION

President Myla Horrocks

Vice President Rose Ollila

Treasurer Mary Rogala

Secretary Susan Bollech

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of and for the year then ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arvon Township School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our 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 and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2008 on our consideration of the Arvon Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 6 through 10 and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arvon Township School District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

October 3, 2008

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2008**

This section of Arvon Township School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The Government-Wide Financial Statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant fund-the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Reporting the District as a Whole - Government-Wide Financial Statements:

The government-wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets of the District are reported in the Statement of Net Assets of the Government-Wide Financial Statements.

Reporting the District's Most Significant Funds - Fund Financial Statements:

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 to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the School Food Service Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition.

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2008**

Summary of Net Assets in Governmental Activities

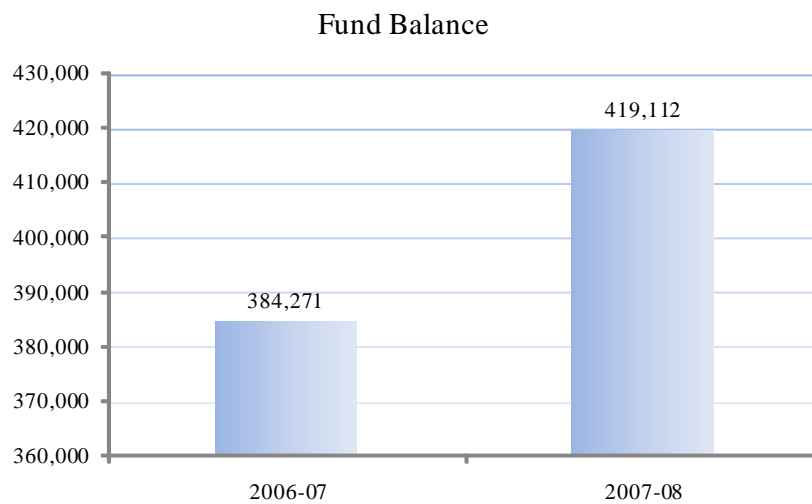
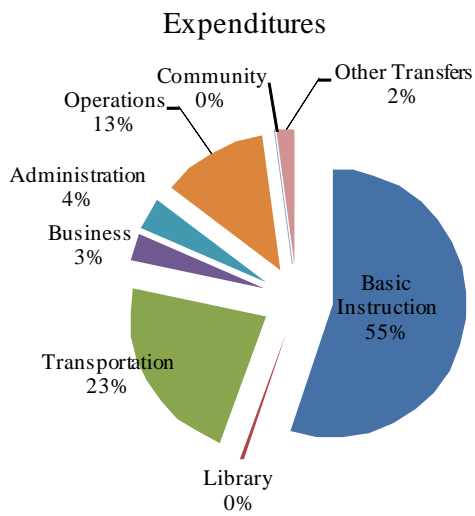
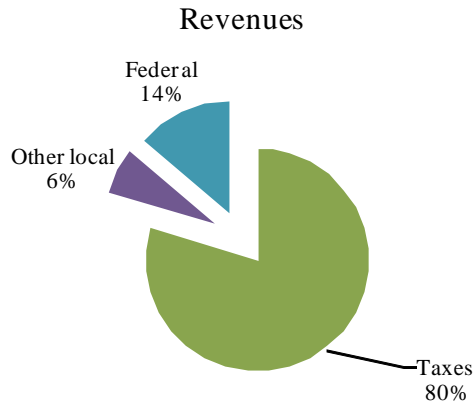
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 434,034	\$ 399,163
Capital assets - Net of accumulated depreciation	159,086	160,959
Total Assets	<u>\$ 593,120</u>	<u>\$ 560,122</u>
Liabilities		
Current liabilities	\$ 14,493	\$ 14,705
Total Liabilities	<u>14,493</u>	<u>14,705</u>
Net Assets		
Invested in property and equipment - net of related debt	159,086	160,959
Unrestricted	419,541	384,458
Total net assets	<u>578,627</u>	<u>545,417</u>
Total Liabilities and Net Assets	<u>\$ 593,120</u>	<u>\$ 560,122</u>

Results of Operations in Governmental Activities

	<u>2008</u>	<u>2007</u>
<u>Revenues</u>		
Program Revenue:		
Charges for services	\$ 754	\$ 2,002
Grants and contributions	52,947	54,342
General Revenue:		
Property taxes	297,382	279,396
State Aid	0	2,384
Transfers	578	204
Other	23,960	23,373
Total Revenue	<u>375,621</u>	<u>361,701</u>
<u>Functions/Program Expenses</u>		
Instruction	191,894	187,499
Support services	141,447	131,234
Community service	26	259
School services	9,044	13,009
Total Expenses	<u>342,411</u>	<u>331,742</u>
Change in Net Assets	33,210	29,700
Net Assets - Beginning	545,417	515,717
Net Assets - Ending	<u>\$ 578,627</u>	<u>\$ 545,417</u>

**Arvon Township School District
 Management's Discussion and Analysis
 June 30, 2008**

The following charts highlight the District's General Fund activities:



**Arvon Township School District
Management's Discussion and Analysis
June 30, 2008**

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of the change in fund balance of the governmental funds is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 373,197	\$ 355,178	\$ 18,019
Expenditures/Transfers	\$ 338,356	\$ 324,425	\$ 13,931
Fund Balance	\$ 419,112	\$ 384,271	\$ 34,841
School Food Service Fund:			
Revenues/Transfers	\$ 9,286	\$ 12,561	\$ (3,275)
Expenditures/Transfers	\$ 9,044	\$ 13,009	\$ (3,965)
Fund Balance	\$ 429	\$ 187	\$ 242

General Fund -Revenue increased due to an increase in taxable value for property taxes for the township. Expenses were slightly higher because of an increase in salaries, employee benefits, added needs, and capital outlay.

School Food Service Fund - Revenues and expenditures decreased from prior year due to the fact that the District no longer receives commodities.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2008, the original budget was adopted on June 26, 2007. Since the original budget is adopted two months before school is in session, the district often has many unknowns that could change the financial outlook for the school year. In addition, there are often a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 373,957	\$ 372,643	\$ 373,197	\$ 554	0.1%
Expenditures					
Instruction	\$ 190,109	\$ 183,070	\$ 182,625	\$ 445	0.2%
Supporting services	132,390	151,257	148,843	2,414	1.6%
Community services	300	26	26	0	0.0%
Total expenditures	\$ 322,799	\$ 334,353	\$ 331,494	\$ 2,859	0.9%
Other financing sources (uses)	\$ 7,335	\$ 6,862	\$ 6,862	\$ 0	0.0%

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2008**

General Fund Budgetary Highlights (Continued)

There were no violations of actual revenues or expenses compared to the budget. The variance between actual and budgeted amounts are less than 2% for all areas.

The original budget for support services did not include the expenses to side the exterior of the school. During the year, the Board approved to move forward with that project and the expenses are reflected in the final budget.

Analysis of Financial Position

During the fiscal year ended June 30, 2008, the District's capital assets increased by \$12,218 for a lawnmower and construction of a new shed. There were no disposals or sale of assets during the year. Details of the District's capital assets can be found on page 20.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Arvon Township School District does not receive any state aid and therefore does not operate dependent upon the state foundation allowance. The District levies 13 mills of local property taxes out of the 18 mills of non-homestead property taxes allowed. In 2007-2008, the amount levied for the District was \$297,382.

The school serves 11 students in grades K-6. Middle and high school students are transported to L'Anse or Baraga Schools and the board charges a transportation fee per student to each District.

Arvon Township School received \$54,438 in federal grants awarded on an annual basis. These grants include Title I, Title V, Title II, REAP, and National Lunch Program.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Arvon Township School District.

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 412,229
Taxes receivable	17,336
Accounts receivable	4,469
TOTAL CURRENT ASSETS	434,034
NONCURRENT ASSETS:	
Capital assets	205,029
Less: accumulated depreciation	(45,943)
TOTAL NONCURRENT ASSETS	159,086
TOTAL ASSETS	\$ 593,120
LIABILITIES:	
Accounts payable	\$ 5,330
Accrued expenses	2,661
Salaries payable	6,502
TOTAL LIABILITIES	14,493
NET ASSETS	
Invested in capital assets, net of related debt	159,086
Unreserved	419,541
TOTAL NET ASSETS	578,627
TOTAL LIABILITIES AND NET ASSETS	\$ 593,120

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

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 191,894	\$ -	\$ 51,277	(140,617)
Support services	141,447	-	-	(141,447)
Community services	26	-	-	(26)
School service	9,044	754	1,670	(6,620)
	<u>\$ 342,411</u>	<u>\$ 754</u>	<u>\$ 52,947</u>	<u>(288,710)</u>
Total Governmental Activities				
General Revenues:				
Property taxes - general operations				297,382
Interest and investment earnings				11,444
Other				12,516
Transfers				578
				<u>321,920</u>
Total general revenues				<u>321,920</u>
Change in Net Assets				33,210
Net Assets - Beginning				<u>545,417</u>
Net Assets - Ending				<u>\$ 578,627</u>

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

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 411,800	\$ 429	\$ 412,229
Taxes receivable	17,336	-	17,336
Accounts receivable	4,469	-	4,469
TOTAL ASSETS	\$ 433,605	\$ 429	\$ 434,034
LIABILITIES:			
Accounts payable	\$ 5,330	\$ -	\$ 5,330
Salaries payable	6,502	-	6,502
Accrued expenses	2,661	-	2,661
TOTAL LIABILITIES	14,493	-	14,493
FUND BALANCES:			
Unreserved	419,112	429	419,541
TOTAL FUND BALANCES	419,112	429	419,541
TOTAL LIABILITIES AND FUND BALANCES	\$ 433,605	\$ 429	434,034

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	159,086
Net assets of governmental activities	\$ 578,627

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

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Totals
Revenues			
Local sources	\$ 321,342	\$ 754	\$ 322,096
State sources	-	87	87
Federal sources	51,855	1,583	53,438
Total revenues	<u>373,197</u>	<u>2,424</u>	<u>375,621</u>
Expenditures			
Instruction	182,625	-	182,625
Supporting services	148,843	-	148,843
Community services	26	-	26
School service	-	9,044	9,044
Total expenditures	<u>331,494</u>	<u>9,044</u>	<u>340,538</u>
Excess (deficiency) of revenue over expenditures	41,703	(6,620)	35,083
Other Financing Sources (Uses)			
Operating transfers in	-	6,862	6,862
Operating transfers out	(6,862)	-	(6,862)
Total other financing sources (uses)	<u>(6,862)</u>	<u>6,862</u>	<u>-</u>
Net Change in Fund Balance	34,841	242	<u>35,083</u>
Fund Balances - Beginning of year	<u>384,271</u>	<u>187</u>	
Fund Balances - End of Year	<u>\$ 419,112</u>	<u>\$ 429</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful activities, these costs are capitalized and allocated over their estimated useful lives as depreciation (1,873)

Change in net assets of governmental activities \$ 33,210

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

ARVON TOWNSHIP SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2008

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 437
TOTAL ASSETS	<u>\$ 437</u>
LIABILITIES	
Gift fund	\$ 437
TOTAL LIABILITIES	<u>\$ 437</u>

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

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Arvon Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY

Arvon Township Schools (the "District") is governed by the Arvon Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term receivables as well as long-term debt and obligations. The District's net assets are reported in two parts – invested in capital assets, net of related debt and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so 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 unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the General Fund as a major governmental fund. The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The District's Non-major fund is the School Food Service Fund.

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities). Fiduciary funds are not included in the government-wide statements.

Accrual Method - The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, federal aid, and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State 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, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. Based on the District’s non-homestead tax value and the student membership, the district is out of formula.

2007-08 Foundation	\$ 8,391.00
Less Local Support:	
Non-Homestead Tax Value	\$ 22,875,964
Multiplied by mills	<u>13</u>
Total Local Support	320,263
Divided by General Education K-12 membership	<u>12.79</u>
Calculated Local Support	<u>(25,040.15)</u>
Out of Formula	<u><u>\$ (16,649.15)</u></u>

Other Accounting Policies

Deposits - Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes - Property taxes levied by the District are collected by Baraga County and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied 13 mills of non-homestead assessed value for General Fund.

Receivables and Payables - All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Fund Equity – In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE C - DEPOSITS

At year-end, the District’s deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds
Cash and cash equivalents	\$ 412,229	\$ 437

Deposit Risk

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The District does not have any investments.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, \$57,460 of the District’s bank balance of \$428,307 was exposed to custodial credit risk because it was uninsured and collateralized.

NOTE D - FIXED ASSETS

Fixed Asset activity of the District’s governmental activities was as follows:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Land	\$ 1	\$ 0	\$ 0	\$ 1
Fixed assets being depreciated:				
Building and additions	3,775	10,723	0	14,498
Improvements other than building	146,393	0	0	146,393
Equipment and furniture	42,642	1,495	0	44,137
Subtotal	<u>192,810</u>	<u>\$ 12,218</u>	<u>\$ 0</u>	<u>205,028</u>
Accumulated depreciation:				
Building and additions	3,775	104	0	3,879
Improvements other than building	20,525	6,109	0	26,634
Equipment and furniture	10,941	4,489	0	15,430
Subtotal	<u>35,241</u>	<u>\$ 10,702</u>	<u>\$ 0</u>	<u>45,943</u>
Net capital assets being depreciated	<u>157,569</u>			<u>159,085</u>
Net capital assets	<u>\$ 157,570</u>			<u>\$ 159,086</u>

Depreciation expense in the amount of \$10,702 was charged to instruction and instructional support for the District under Governmental Activities.

NOTE E - INTER-FUND TRANSFERS

General Fund made an inter-fund transfer to the School Food Service Fund in the amount of \$6,862 during the fiscal year ending June 30, 2008.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE F - RECEIVABLES

Taxes receivables in the General Fund in the amount of \$17,336 at June 30, 2008 are expected to be collected within one year.

NOTE G - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2008, for the District’s individual major fund is as follows:

	<u>General</u>
Fund Financial Statements:	
Accounts payable	\$ 5,330
Salaries payable	6,502
Accrued expenses	<u>2,661</u>
	<u>\$ 14,493</u>

There were no such liabilities for the School Food Service fund.

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description

The District contributes to the Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan’s web-site: <http://www.michigan.gov/orsschools>.

Funding Policy

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The District was required by the state statute to contribute 17.74% of covered compensation through September 30, 2007 and 16.72% of covered compensation to the Plan for the remainder of the year. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPSERS for the years ended June 30, 2008, 2007, and 2006, were \$20,460, \$20,200, and \$18,661 respectively, equal to the required contributions for each year.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Other Post Employee Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exception:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.

The District is not responsible for the payment of retirement benefits or post-employment benefits which is the responsibility of the State of Michigan.

NOTE I - RECONCILIATION OF GRANT AUDITOR REPORT TO REPORTED FEDERAL REVENUES

The amounts reported as cumulative payments on the Grant Auditor Report prepared by the State of Michigan, reconcile with the federal revenue on the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances as follows:

Total cumulative payments	\$	76,057
Prior year grant funds		(47,639)
School Food Services grants		1,583
REAP Grant		22,858
Medicaid Outreach		579
Total Federal Financial Assistance	\$	<u>53,438</u>

The District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2008 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE J - CONTINGENT LIABILITIES

Risk Pool

Arvon Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Arvon Township School District joined together with other school districts currently operating a common risk management and insurance program. Arvon Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Arvon Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments. The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2008, which can be obtained through the District.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance Final to Actual
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local sources	\$ 321,291	\$ 320,823	\$ 321,342	\$ 519
Federal sources	52,666	51,820	51,855	35
TOTAL REVENUE	<u>373,957</u>	<u>372,643</u>	<u>373,197</u>	<u>554</u>
EXPENDITURES:				
Instruction	190,109	183,070	182,625	445
Supporting services	132,390	151,257	148,843	2,414
Community services	300	26	26	-
TOTAL EXPENDITURES	<u>322,799</u>	<u>334,353</u>	<u>331,494</u>	<u>2,859</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	51,158	38,290	41,703	3,413
OTHER FINANCING SOURCES (USES)				
Operating transfer out	<u>(7,335)</u>	<u>(6,862)</u>	<u>(6,862)</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,335)</u>	<u>(6,862)</u>	<u>(6,862)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 43,823</u>	<u>\$ 31,428</u>	34,841	<u>\$ 3,413</u>
FUND BALANCE - BEGINNING OF YEAR			<u>384,271</u>	
FUND BALANCE - END OF YEAR			<u>\$ 419,112</u>	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Years Ended June 30, 2008 and 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Local sources:				
Taxes	\$ 297,382	\$ 297,382	\$ -	\$ 279,396
Other local sources:				
Investment revenue	10,925	11,444	519	9,991
Miscellaneous	12,516	12,516	-	13,382
Total other local sources	23,441	23,960	519	23,373
Total local sources	320,823	321,342	519	302,769
State sources	-	-	-	2,384
Federal sources:				
REAP	22,859	22,859	-	21,037
Title I	24,867	24,867	-	24,849
Title V	94	94	-	95
Class size reduction - Title IIA	3,457	3,457	-	3,501
Medicaid outreach	543	578	35	543
Total federal sources	51,820	51,855	35	50,025
TOTAL REVENUES	372,643	373,197	554	355,178
EXPENDITURES:				
Instruction:				
Basic program	135,344	134,899	445	132,116
Added needs:				
Compensatory education	47,726	47,726	-	45,887
Total instruction	183,070	182,625	445	178,003
Supporting Services:				
Improvement of instruction	3,551	3,551	-	3,596
Library	1,500	1,500	-	1,000
Board of education	13,294	12,672	622	11,964
Business-fiscal services	11,558	11,082	476	11,464
Operation and maintenance	44,015	42,943	1,072	38,380
Pupil transportation	77,000	76,756	244	73,721
Technology	339	339	-	-
Total supporting services	151,257	148,843	2,414	140,125
Community services	26	26	-	259
TOTAL EXPENDITURES	334,353	331,494	2,859	318,387

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Years Ended June 30, 2008 and 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
EXCESS OF REVENUES OVER EXPENDITURES	38,290	41,703	3,413	36,791
OTHER FINANCING SOURCES (USES):				
Operating transfer out	(6,862)	(6,862)	-	(5,699)
Other outgoing transfers	-	-	-	(339)
TOTAL OTHER FINANCING SOURCES (USES)	(6,862)	(6,862)	-	(6,038)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 31,428</u>	34,841	<u>\$ 3,413</u>	30,753
FUND BALANCE, BEGINNING OF YEAR		<u>384,271</u>		<u>353,518</u>
FUND BALANCE, END OF YEAR		<u>\$ 419,112</u>		<u>\$ 384,271</u>

ARVON TOWNSHIP SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Local sources:				
Food sales	\$ 755	\$ 754	\$ 1	\$ 712
Miscellaneous	-	-	-	1,290
Total local sources	<u>755</u>	<u>754</u>	<u>1</u>	<u>2,002</u>
State sources	<u>87</u>	<u>87</u>	<u>-</u>	<u>56</u>
Federal sources:				
School lunch program	<u>1,583</u>	<u>1,583</u>	<u>-</u>	<u>4,804</u>
TOTAL REVENUES	<u>2,425</u>	<u>2,424</u>	<u>1</u>	<u>6,862</u>
EXPENDITURES:				
Purchases	<u>9,045</u>	<u>9,044</u>	<u>1</u>	<u>13,009</u>
TOTAL EXPENDITURES	<u>9,045</u>	<u>9,044</u>	<u>1</u>	<u>13,009</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,620)</u>	<u>(6,620)</u>	<u>-</u>	<u>(6,147)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>6,862</u>	<u>6,862</u>	<u>-</u>	<u>5,699</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 242</u>	<u>242</u>	<u>\$ -</u>	<u>448</u>
FUND BALANCE, BEGINNING OF YEAR		<u>187</u>		<u>635</u>
FUND BALANCE, END OF YEAR		<u>\$ 429</u>		<u>\$ 187</u>



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Arvon Township School District
Skaneec, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Arvon Township School District as of and for the year then ended June 30, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated October 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential and will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 through 2008-2 to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will be not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2008-1 through 2008-2.

We noted certain matters that we reported to management of Arvon Township School District in a separate letter dated October 3, 2008.

The Arvon Township School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Arvon Township School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District School Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

October 3, 2008

**ARVON TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2008**

2008-1 – Preparation of Financial Statements in Accordance with GAAP

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

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

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

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

View of Responsible Officials: Arvon Township School District has evaluated the benefits 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 District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

2008-2 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible.

Cause, Condition, and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

View of Responsible Officials: The District understands it needs to be aware of this situation and maintain oversight of its financial records.