

**ARVON TOWNSHIP SCHOOL DISTRICT
BARAGA COUNTY, MICHIGAN**

**FINANCIAL REPORT
(Supplemental Information)**

June 30, 2014

ARVON TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2014

BOARD OF EDUCATION

| | |
|----------------------|---------------|
| President | Mary Rogala |
| Vice President | Steve Fair |
| Treasurer | Nancy Soli |
| Secretary | Susan Bollech |
| Trustee | Terri Martin |

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Arvon Township School District
Skaneec, Michigan

Report on the Financial Statements

We have audited the accompanying 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, 2014, 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

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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the Arvon Township School District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 27 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information on pages 29 through 31 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 29 through 31 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2014 on our consideration of Arvon Township School District's internal control over financial reporting and on 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* in considering Arvon Township School District's internal control over financial reporting and compliance.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

September 22, 2014

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014. 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 non-major funds. The remaining statement, the statement of fiduciary net position, 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 Position 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, 2014**

Summary of Net Position in Governmental Activities

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| Assets | | |
| Current and other assets | \$ 716,188 | \$ 686,576 |
| Capital assets - Net of accumulated depreciation | 195,099 | 208,669 |
| Total Assets | <u>\$ 911,287</u> | <u>\$ 895,245</u> |
| Liabilities | | |
| Current liabilities | \$ 1,936 | \$ 730 |
| Long term liabilities | 14,602 | 5,603 |
| Total Liabilities | <u>16,538</u> | <u>6,333</u> |
| Net Position | | |
| Net investment in capital assets | 180,497 | 203,066 |
| Restricted for food service | 98 | 703 |
| Unrestricted | 714,154 | 685,143 |
| Total net position | <u>894,749</u> | <u>888,912</u> |
| Total Liabilities and Net Position | <u>\$ 911,287</u> | <u>\$ 895,245</u> |

Results of Operations in Governmental Activities

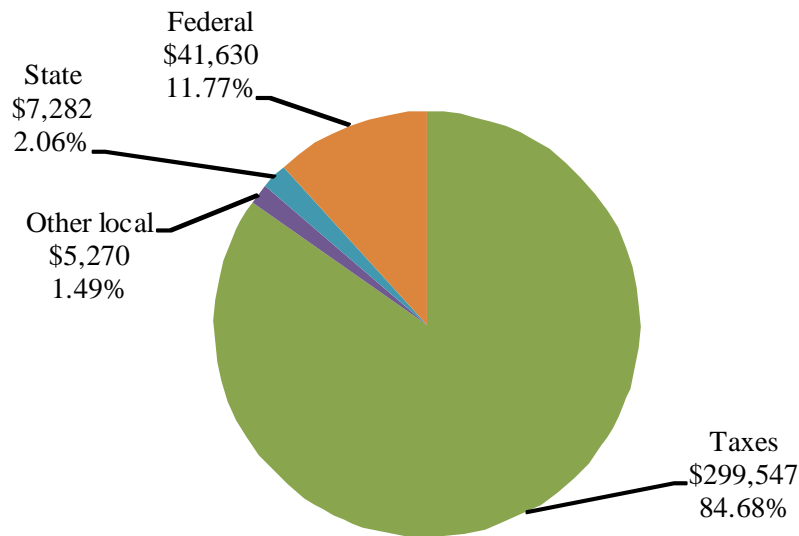
| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|-------------------|-------------------|
| <u>Revenues</u> | | |
| Program Revenue: | | |
| Charges for services | \$ 231 | \$ 257 |
| Grants and contributions | 48,587 | 49,589 |
| General Revenue: | | |
| Property taxes | 299,547 | 316,089 |
| State school aid - unrestricted | 543 | 189 |
| Interest | 2,037 | 2,623 |
| Other | 3,233 | 1,958 |
| Total Revenue | <u>354,178</u> | <u>370,705</u> |
| <u>Functions/Program Expenses</u> | | |
| Instruction | 197,009 | 181,751 |
| Support services | 145,489 | 139,692 |
| Community service | 491 | 345 |
| School services | 5,352 | 6,074 |
| Total Expenses | <u>348,341</u> | <u>327,862</u> |
| Change in Net Position | 5,837 | 42,843 |
| Net Position - Beginning | 888,912 | 846,069 |
| Net Position - Ending | <u>\$ 894,749</u> | <u>\$ 888,912</u> |

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

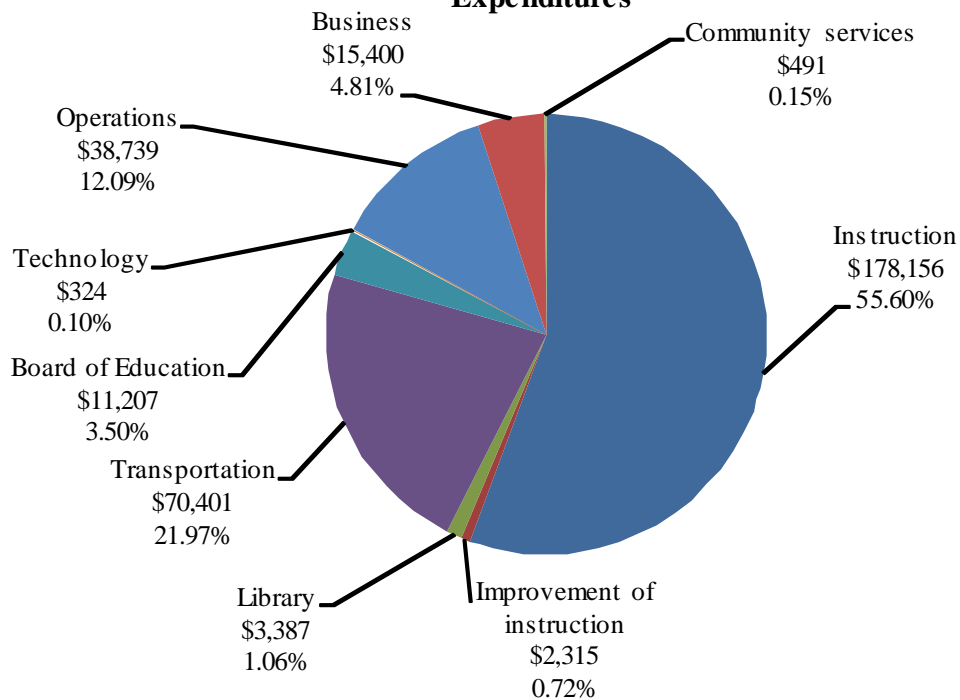
Results of Operations in Governmental Activities (Continued)

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

Revenues

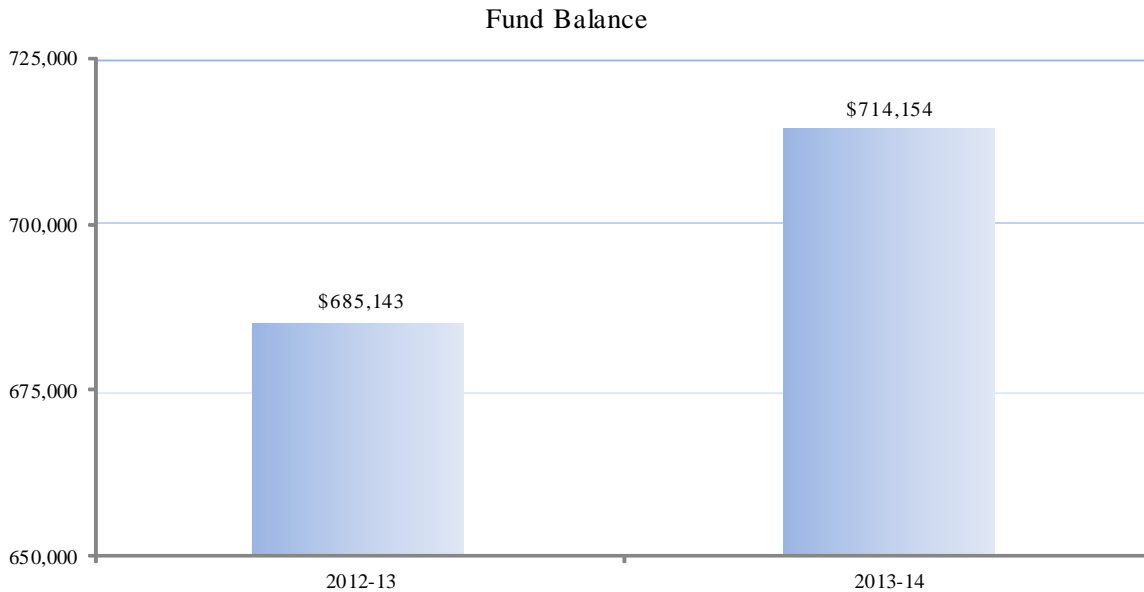


Expenditures



**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Results of Operations in Governmental Activities (Continued)



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 | \$ 353,729 | \$ 368,650 | \$ (14,921) |
| Expenditures/Transfers | \$ 320,420 | \$ 316,081 | \$ 4,339 |
| Fund Balance | \$ 714,154 | \$ 685,143 | \$ 29,011 |
| School Food Service Fund: | | | |
| Revenues/Transfers | \$ 449 | \$ 6,465 | \$ (6,016) |
| Expenditures/Transfers | \$ 5,352 | \$ 6,075 | \$ (723) |
| Fund Balance | \$ 98 | \$ 703 | \$ (605) |

General Fund - Revenue changes are mainly from a decrease in revenues from property taxes of \$16,542. State sources increased by \$3,171 and interest decreased by \$586.

The expenditure increase was mainly due to an increase in Instruction expenditures of \$11,673 and a decrease in Supporting services of \$3,071.

School Food Service Fund - Revenue changes were mainly from cancelling the federal lunch program in October 2013.

Expenditure changes were mainly from a decrease in School purchases of \$635.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 1. 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, 2014, the original budget was adopted on June 23, 2013. 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 during the fiscal year.

| | Original Budget | Final Budget | Actual | Variance with final budget | % Variance |
|--------------------------------|--------------------|-----------------|------------|----------------------------------|---------------|
| Revenues | \$ 350,551 | \$ 353,687 | \$ 353,729 | \$ 42 | 0.0% |
| Expenditures | | | | | |
| Instruction | \$ 179,138 | \$ 177,233 | \$ 178,156 | \$ (923) | -0.5% |
| Supporting services | 143,700 | 145,863 | 141,773 | 4,090 | 2.9% |
| Community services | 415 | 491 | 491 | - | 0.0% |
| Total expenditures | \$ 323,253 | \$ 323,587 | \$ 320,420 | \$ 3,167 | 1.0% |
| Other financing sources (uses) | \$ (4,154) | \$ (4,500) | \$ (4,298) | \$ - | 0.0% |

Supporting services decreased by \$4,090 from final budget to actual.

Instruction increased by \$923 from final budget to actual.

Revenues increased by \$3,136 from the original to final budget.

Analysis of Financial Position

During the fiscal year ended June 30, 2014, the District's net capital assets decreased by \$13,570 due to a combination of \$14,461 in depreciation, \$1,071 in additions of a door chime, and \$2,973 disposal of two computers and one copier. Details of the District's capital assets can be found on page 22.

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

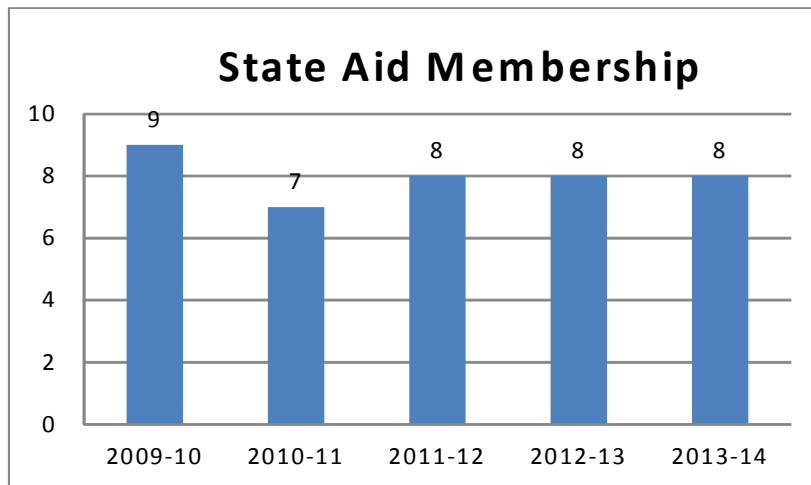
Arvon Township School District receives very little state aid and therefore does not operate dependent upon the state foundation allowance. The District levies 10 mills of local property taxes out of the 17.9334 mills of non-homestead property taxes allowed. In 2013-2014, the amount levied for the District was \$299,547.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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

Arvon Township School received \$41,811 in federal grants awarded on an annual basis. These grants include Title I, Title II, REAP, and the National Lunch Program.

The following graph depicts that student enrollment remained the same, using the State Aid Membership Count.



State revenues received by Michigan school districts are approved annually in a State Aid Act. 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 17.9334 mills. Based on the District’s non-homestead tax value and the student membership, the district is out of formula.

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 POSITION
June 30, 2014

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 714,685 |
| Accounts receivable | <u>1,503</u> |
| TOTAL CURRENT ASSETS | <u>716,188</u> |
| NONCURRENT ASSETS: | |
| Capital assets | 321,980 |
| Less: accumulated depreciation | <u>(126,881)</u> |
| TOTAL NONCURRENT ASSETS | <u>195,099</u> |
| TOTAL ASSETS | <u>\$ 911,287</u> |
| LIABILITIES: | |
| Current Liabilities: | |
| Accounts payable | \$ 1,788 |
| Accrued expenses | 36 |
| Salaries payable | 112 |
| Noncurrent Liabilities: | |
| Compensated absences | <u>14,602</u> |
| TOTAL LIABILITIES | <u>16,538</u> |
| NET POSITION | |
| Net investment in capital assets | 180,497 |
| Restricted for Food Service | 98 |
| Unrestricted | <u>714,154</u> |
| TOTAL NET POSITION | <u>894,749</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 911,287</u> |

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

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

| | Program Revenues | | | Governmental Activities |
|---------------------------------------|-------------------------|--|--|----------------------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | |
| <u>FUNCTIONS/PROGRAMS</u> | | | | |
| Government Activities: | | | | |
| Instruction and instructional support | \$ 197,009 | \$ - | \$ 48,369 | \$ (148,640) |
| Support services | 145,489 | - | - | (145,489) |
| Community services | 491 | - | - | (491) |
| School food service | 5,352 | 231 | 218 | (4,903) |
| | <u>\$ 348,341</u> | <u>\$ 231</u> | <u>\$ 48,587</u> | <u>(299,523)</u> |
| Total Governmental Activities | | | | |
| General Revenues: | | | | |
| Property taxes - general operations | | | 299,547 | |
| State school aid - unrestricted | | | 543 | |
| Interest and investment earnings | | | 2,037 | |
| Other | | | 3,233 | |
| | | | <u>305,360</u> | |
| | | | | 5,837 |
| | | | | <u>888,912</u> |
| | | | | <u>\$ 894,749</u> |

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

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014

| | <u>General</u> | <u>Food Service Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------|------------------------------|---|
| ASSETS: | | | |
| Cash and cash equivalents | \$ 714,497 | \$ 188 | \$ 714,685 |
| Accounts receivable | 1,503 | - | 1,503 |
| TOTAL ASSETS | <u>\$ 716,000</u> | <u>\$ 188</u> | <u>\$ 716,188</u> |
| LIABILITIES: | | | |
| Accounts payable | \$ 1,698 | \$ 90 | \$ 1,788 |
| Salaries payable | 112 | - | 112 |
| Accrued expenses | 36 | - | 36 |
| TOTAL LIABILITIES | <u>1,846</u> | <u>90</u> | <u>1,936</u> |
| FUND BALANCES: | | | |
| Restricted | - | 98 | 98 |
| Unassigned | 714,154 | - | 714,154 |
| TOTAL FUND BALANCES | <u>714,154</u> | <u>98</u> | |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 716,000</u> | <u>\$ 188</u> | |

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

| | |
|---|-------------------|
| Long-term liabilities include accrued expenses not due and payable in the current period and therefore are not reported in the funds. | (14,602) |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | <u>195,099</u> |
| Net position of governmental activities | <u>\$ 894,749</u> |

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, 2014

| | General Fund | Food Service Fund | Totals |
|--|-------------------|----------------------|----------------|
| Revenues | | | |
| Local sources | \$ 304,817 | \$ 231 | \$ 305,048 |
| State sources | 7,282 | 37 | 7,319 |
| Federal sources | 41,630 | 181 | 41,811 |
| Total revenues | <u>353,729</u> | <u>449</u> | <u>354,178</u> |
| Expenditures | | | |
| Instruction | 178,156 | - | 178,156 |
| Supporting services | 141,773 | - | 141,773 |
| Community services | 491 | - | 491 |
| School service | - | 5,352 | 5,352 |
| Total expenditures | <u>320,420</u> | <u>5,352</u> | <u>325,772</u> |
| Excess (deficiency) of revenue over expenditures | 33,309 | (4,903) | 28,406 |
| Other Financing Sources (Uses) | | | |
| Operating transfers in | - | 4,298 | 4,298 |
| Operating transfers out | (4,298) | - | (4,298) |
| Total other financing sources (uses) | <u>(4,298)</u> | <u>4,298</u> | <u>-</u> |
| Net Change in Fund Balance | 29,011 | (605) | 28,406 |
| Fund Balances - Beginning of year | <u>685,143</u> | <u>703</u> | |
| Fund Balances - End of Year | <u>\$ 714,154</u> | <u>\$ 98</u> | |

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

Long-term liabilities include accrued expenses not due or payable in the current period and therefore are not reported in the funds. (8,999)

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 lives as depreciation. (13,570)

Change in net position of governmental activities \$ 5,837

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

ARVON TOWNSHIP SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014

| | <u>Fiduciary Fund</u> |
|-------------------|---------------------------|
| ASSETS | |
| Cash | <u>\$ 825</u> |
| LIABILITIES | |
| Gift Fund | \$ 225 |
| Scholarship Fund | <u> 600</u> |
| TOTAL LIABILITIES | <u>\$ 825</u> |

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

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 States 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 position 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 position, 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 position are reported in two parts – invested in capital assets, net of related debt and unrestricted net position.

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 allocate indirect costs.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 and Food Service Fund as major governmental funds. 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 Food Service Fund is the food service operating fund and accounts for financial resources of the 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, 2014

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, 2014, the foundation allowance was based on pupil membership counts taken in February and September of 2012.

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 17.9334 mills. Based on the District’s non-homestead tax value and the student membership, the district is out of formula.

| | | | |
|---------------------------------|----|-------------|-----------------------|
| Foundation | | \$ | 8,041.00 |
| Assumed Local Support | \$ | 539,275 | |
| Divided by State Aid Membership | | <u>7.90</u> | |
| Calculated Local Support | | | <u>(68,262.66)</u> |
| Out of Formula | | | <u>\$ (60,221.66)</u> |

Other Accounting Policies

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. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average balance for the principal.

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, 2014, the District levied 10 mills of non-homestead assessed value for General Fund.

Receivables and Payables - Activity between funds are reported as “due to/from other funds.” 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, 2014

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. Capital 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 and 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 |

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - Deferred outflows are reported in a separate section following assets, and deferred inflows are reported in a separate section following liabilities. The statement of net position then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Fund Balance - Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either a.) Not in spendable form, or b.) Legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, laws or regulations of other governments. *Committed fund balance*, if any, is reported from amounts that can be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned balance.

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.

Accrued Benefits - The liabilities for accrued benefits reported in the district-wide statements in the amount of \$14,602 consisted of sick leave. Principal/Teachers with a minimum of 5 years of service in the District are entitled to 13 sick days per year, and if not used, can accumulate up to a maximum of 180 days. Teachers with a minimum of 5 years of service in the District are entitled to 10 sick days per year, and if not used, can accumulate up to a maximum of 180 days. Payment of sick leave, capped at 50% of unused days, shall be paid upon retirement or layoff.

**ARVON TOWNSHIP SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014**

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 District’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.

NOTE C - CASH AND CASH EQUIVALENTS

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 | \$ 714,685 | \$ 825 |

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, 2014, \$15,964 of the District’s bank balance of \$722,133 was exposed to custodial credit risk because it was uninsured and uncollateralize.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE D - CAPITAL ASSETS

Capital asset activity of the District’s governmental activities was as follows:

| | Balance 06/30/13 | Additions | Deletions | Balance 06/30/14 |
|--|---------------------|------------------|-----------------|---------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1 | \$ - | \$ - | \$ 1 |
| Capital assets, being depreciated: | | | | |
| Building and additions | 101,476 | - | - | 101,476 |
| Improvements other than building | 164,070 | 1,070 | - | 165,140 |
| Equipment and furniture | <u>58,332</u> | - | <u>2,969</u> | <u>55,363</u> |
| Subtotal | <u>323,878</u> | <u>1,070</u> | <u>\$ 2,969</u> | <u>321,979</u> |
| Accumulated depreciation: | | | | |
| Building and additions | 21,933 | 3,796 | - | 25,729 |
| Improvements other than building | 59,310 | 6,858 | - | 66,168 |
| Equipment and furniture | <u>33,967</u> | <u>3,986</u> | <u>2,969</u> | <u>34,984</u> |
| Subtotal | <u>115,210</u> | <u>\$ 14,640</u> | <u>\$ 2,969</u> | <u>126,881</u> |
| Net capital assets being depreciated | <u>208,668</u> | | | <u>195,098</u> |
| Net capital assets | <u>\$ 208,669</u> | | | <u>\$ 195,099</u> |

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

| | |
|-------------|------------------|
| Instruction | \$ 9,854 |
| Operations | <u>4,786</u> |
| TOTAL | <u>\$ 14,640</u> |

NOTE E - INTER-FUND TRANSFERS

General Fund made an inter-fund transfer to the School Food Service Fund in the amount of \$4,298 during the fiscal year ending June 30, 2014.

NOTE F - RECEIVABLES

Receivables at June 30, 2014 that are expected to be collected within one year are \$1,503 in the general fund.

NOTE G - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2014, for the District are as follows:

| Fund Financial Statements: | General Fund | Food Service Fund |
|----------------------------|------------------|----------------------|
| Salaries payable | \$ 112 | \$ - |
| Accounts Payable | 1,698 | 90 |
| Accrued expenses | 36 | - |
| Compensated absences | <u>14,602</u> | <u>-</u> |
| | <u>\$ 16,448</u> | <u>\$ 90</u> |

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE H - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description: The School District contributes to the Michigan Public School Employees Retirement Systems (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services. MPSERS provides retirement, survivor and disability 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 MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Defined Benefit Plan: Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic MIP Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the MIP Plus Plan. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. Basic 4% and MIP 7% members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2014 as a percentage of payroll ranged from 20.96 to 24.79 percent.

Hybrid Plans: Members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account. Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employee immediately. If a member participating in the hybrid plan retires with certain age and service requirements, he or she will receive a monthly pension based on compensation received before February 1, 2013.

Defined Contribution Plan: A member first enrolling in MPSERS on or after September 4, 2012 is automatically enrolled in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

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 District's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$35,194, \$26,149, and \$23,358, respectively.

**ARVON TOWNSHIP SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014**

NOTE H - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

Other Post Employment Benefits

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

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

The District's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

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 | \$ | 48,382 |
| REAP Grant | | 17,645 |
| Prior year grant | | (24,216) |
| Total Federal Financial Assistance | \$ | <u>41,811</u> |

The District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2014 and is exempt from Federal Single Audit requirements.

NOTE J - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for general liability and employee medical benefit claims and participates in the SEG Self-insurers Workers' Disability Compensation Fund for claims relating to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE K - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE L - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual (GAAP Basis) | Variance Final to Actual |
|--|------------------|------------------|------------------------|-----------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources | \$ 307,219 | \$ 304,774 | \$ 304,817 | \$ 43 |
| State sources | 2,203 | 7,283 | 7,282 | (1) |
| Federal sources | 41,129 | 41,630 | 41,630 | - |
| TOTAL REVENUE | 350,551 | 353,687 | 353,729 | 42 |
| EXPENDITURES: | | | | |
| Instruction | 179,138 | 177,233 | 178,156 | (923) |
| Supporting services | 143,700 | 145,863 | 141,773 | 4,090 |
| Community services | 415 | 491 | 491 | - |
| TOTAL EXPENDITURES | 323,253 | 323,587 | 320,420 | 3,167 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 27,298 | 30,100 | 33,309 | 3,209 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfer out | (4,154) | (4,500) | (4,298) | 202 |
| Total other financing sources (uses) | (4,154) | (4,500) | (4,298) | 202 |
| NET CHANGE IN FUND BALANCE | \$ 23,144 | \$ 25,600 | 29,011 | \$ 3,411 |
| FUND BALANCE - BEGINNING OF YEAR | | | 685,143 | |
| FUND BALANCE - END OF YEAR | | | \$ 714,154 | |

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2014

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|----------------------------|----------------|----------------|-----------------|
| REVENUES: | | | |
| Local sources: | | | |
| Taxes | \$ 299,547 | \$ 299,547 | \$ - |
| Other local sources: | | | |
| Investment revenue | 1,994 | 2,037 | 43 |
| Miscellaneous | 3,233 | 3,233 | - |
| Total other local sources | 5,227 | 5,270 | 43 |
| Total local sources | 304,774 | 304,817 | 43 |
| State sources | 7,283 | 7,282 | (1) |
| Federal sources: | | | |
| REAP | 17,645 | 17,645 | - |
| Title I | 21,670 | 21,670 | - |
| Title II A | 2,315 | 2,315 | - |
| Total federal sources | 41,630 | 41,630 | - |
| TOTAL REVENUES | 353,687 | 353,729 | 42 |
| EXPENDITURES: | | | |
| Instruction: | | | |
| Basic program | 140,771 | 138,840 | 1,931 |
| Added needs: | | | |
| Compensatory education | 36,462 | 39,316 | (2,854) |
| Total instruction | 177,233 | 178,156 | (923) |
| Supporting Services: | | | |
| Improvement of instruction | 2,315 | 2,315 | - |
| Library | 4,665 | 3,387 | 1,278 |
| Board of education | 12,278 | 11,207 | 1,071 |
| Business-fiscal services | 15,403 | 15,400 | 3 |
| Operation and maintenance | 40,522 | 38,739 | 1,783 |
| Pupil transportation | 70,356 | 70,401 | (45) |
| Technology | 324 | 324 | - |
| Total supporting services | 145,863 | 141,773 | 4,090 |
| Community services | 491 | 491 | - |
| TOTAL EXPENDITURES | 323,587 | 320,420 | 3,167 |

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2014

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|---------------|---------------|-----------------|
| EXCESS OF REVENUES OVER EXPENDITURES | 30,100 | 33,309 | 3,209 |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfer out | (4,500) | (4,298) | 202 |
| TOTAL OTHER FINANCING SOURCES (USES) | (4,500) | (4,298) | 202 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ 25,600 | 29,011 | \$ 3,411 |
| FUND BALANCE, BEGINNING OF YEAR | | 685,143 | |
| FUND BALANCE, END OF YEAR | | \$ 714,154 | |

ARVON TOWNSHIP SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2014

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|-----------------|----------------|-----------------|
| REVENUES: | | | |
| Local sources - food sales | \$ 231 | \$ 231 | \$ - |
| State sources | 37 | 37 | - |
| Federal lunch program | 181 | 181 | - |
| TOTAL REVENUES | <u>449</u> | <u>449</u> | <u>-</u> |
| EXPENDITURES: | | | |
| Utilities | 357 | 357 | - |
| Food | 675 | 675 | - |
| Purchases | 4,320 | 4,320 | - |
| TOTAL EXPENDITURES | <u>5,352</u> | <u>5,352</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(4,903)</u> | <u>(4,903)</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | 4,500 | 4,298 | 202 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (403)</u> | <u>(605)</u> | <u>\$ 202</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>703</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 98</u> | |

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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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

Board of Education
Arvon Township School District
Skaneec, Michigan

We 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, each major fund, and the aggregate remaining fund information of the Arvon Township Schools as of and for the year then ended June 30, 2014 and the related notes to the financial statements and have issued our report thereon dated September 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Arvon Township School District's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will be not be prevented, 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.

Our 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

September 22, 2014

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 23, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Arvon Township School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by Arvon Township School 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 financial statements is current judgements.

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our 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 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 the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2014.

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 District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our 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 Arvon Township School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on RSI.

We were engaged to report on the supplemental financial information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Arvon Township School District board and management and is not intended to be and should not be used for anyone other than these specified parties.

It has been a pleasure to provide audit services to Arvon Township School District. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

September 22, 2014