

ARVON TOWNSHIP SCHOOL DISTRICT
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

June 30, 2011

ARVON TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2011

BOARD OF EDUCATION

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Arvon Township School District
Skaneec, 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, 2011, which collectively comprise the District'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, 2011, 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 17, 2011 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.

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 26, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

October 17, 2011

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011. 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, 2011**

Summary of Net Assets in Governmental Activities

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 571,035	\$ 499,568
Capital assets - Net of accumulated depreciation	225,290	230,240
Total Assets	<u>\$ 796,325</u>	<u>\$ 729,808</u>
Liabilities		
Current liabilities	\$ 2,230	\$ 796
Total Liabilities	<u>2,230</u>	<u>796</u>
Net Assets		
Invested in property and equipment	225,290	230,240
Restricted for food service	407	488
Unrestricted	568,398	498,772
Total net assets	<u>794,095</u>	<u>729,012</u>
Total Liabilities and Net Assets	<u>\$ 796,325</u>	<u>\$ 729,808</u>

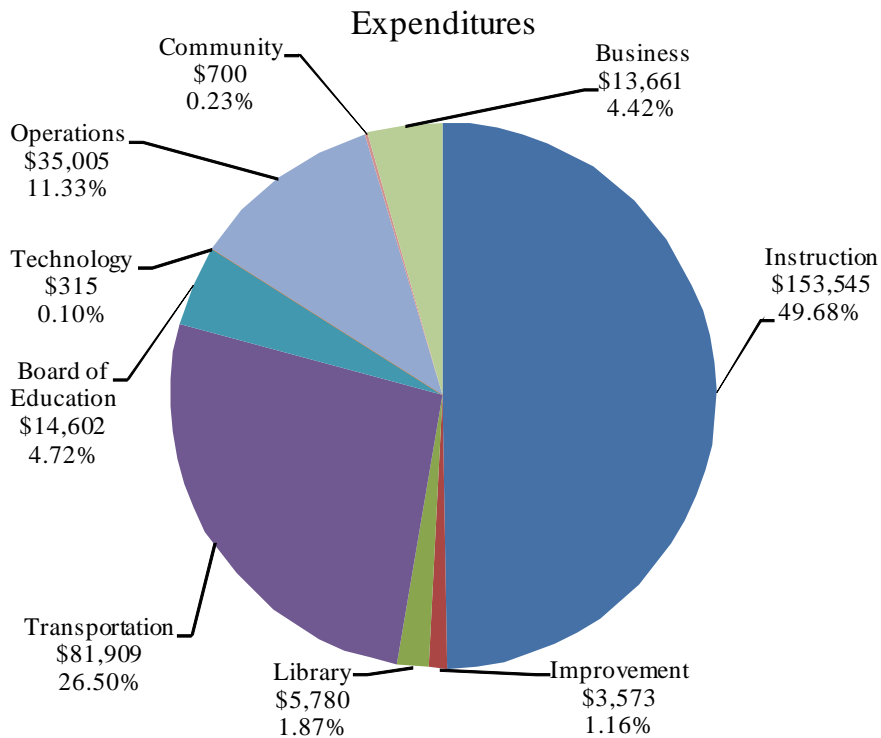
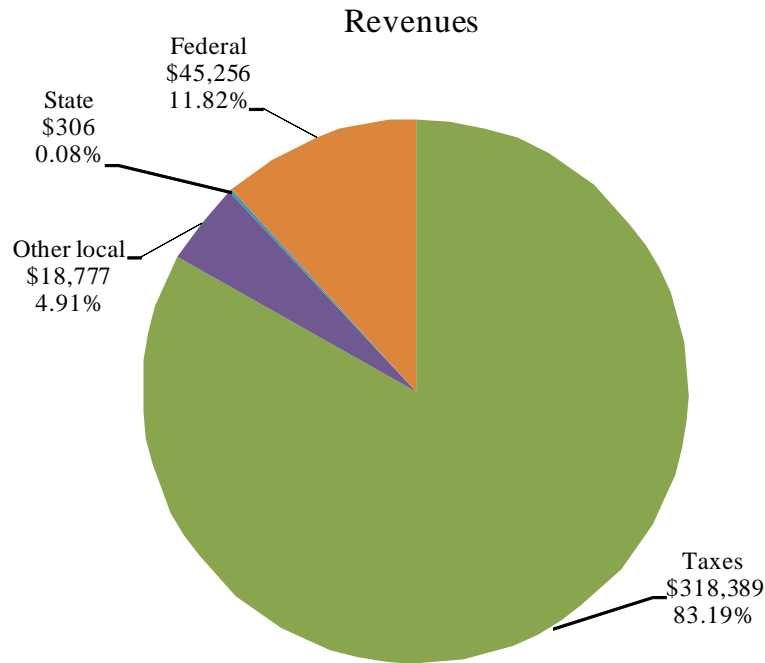
Results of Operations in Governmental Activities

	<u>2011</u>	<u>2010</u>
<u>Revenues</u>		
Program Revenue:		
Charges for services	\$ 152	\$ 104
Grants and contributions	46,205	59,794
General Revenue:		
Property taxes	318,389	325,411
State school aid - unrestricted	306	-
Interest	6,350	6,469
Other	12,427	11,625
Total Revenue	<u>383,829</u>	<u>403,403</u>
<u>Functions/Program Expenses</u>		
Instruction	162,373	169,189
Support services	150,967	155,865
Community service	700	1,056
School services	4,706	3,869
Total Expenses	<u>318,746</u>	<u>329,979</u>
Change in Net Assets	65,083	73,424
Net Assets - Beginning	729,012	655,588
Net Assets - Ending	<u>\$ 794,095</u>	<u>\$ 729,012</u>

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

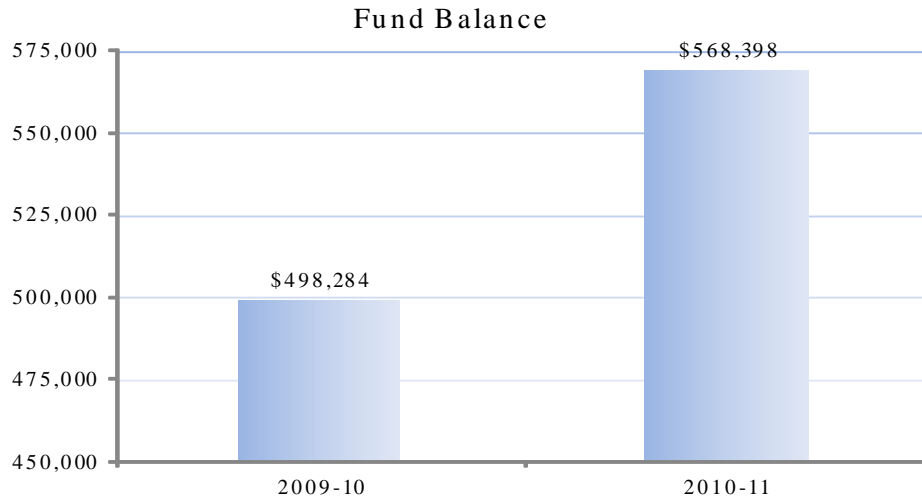
Results of Operations in Governmental Activities (Continued)

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



**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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	\$ 382,728	\$ 402,555	\$ (19,827)
Expenditures/Transfers	\$ 312,614	\$ 326,518	\$ (13,904)
Fund Balance	\$ 568,398	\$ 498,284	\$ 70,114
School Food Service Fund:			
Revenues/Transfers	\$ 4,625	\$ 3,906	\$ 719
Expenditures/Transfers	\$ 4,706	\$ 3,869	\$ 837
Fund Balance	\$ 407	\$ 488	\$ (81)

General Fund - Revenue changes are mainly from a decrease in federal revenues which included REAP, Title I and American Reinvestment Recovery Act funds.

The expenditure decrease was mainly due to prior year's electric upgrades, building and playground improvements.

School Food Service Fund - There were no significant changes in revenues and expenditures.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011, the original budget was adopted on June 23, 2010. 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	\$ 381,254	\$ 382,466	\$ 382,728	\$ 262	0.1%
Expenditures					
Instruction	\$ 162,445	\$ 153,555	\$ 153,545	\$ 10	0.0%
Supporting services	152,163	159,151	154,845	4,306	2.8%
Community services	470	750	700	50	7.1%
Total expenditures	\$ 315,078	\$ 313,456	\$ 309,090	\$ 4,366	1.4%
Other financing sources (uses)	\$ (3,352)	\$ (3,647)	\$ (3,524)	\$ (123)	3.5%

There were no significant variances between the final budget and actual revenues and expenditures as of June 30, 2011.

Analysis of Financial Position

During the fiscal year ended June 30, 2011, the District's capital assets decreased by \$4,951 due to \$14,374 in depreciation and \$9,423 in additions of a keyboard, sink cabinet, and technology. There was a disposal of \$1,060 for an outdated computer during the year. Details of the District's capital assets can be found on page 21.

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 12 mills of local property taxes out of the 18 mills of non-homestead property taxes allowed. In 2010-2011, the amount levied for the District was \$318,389.

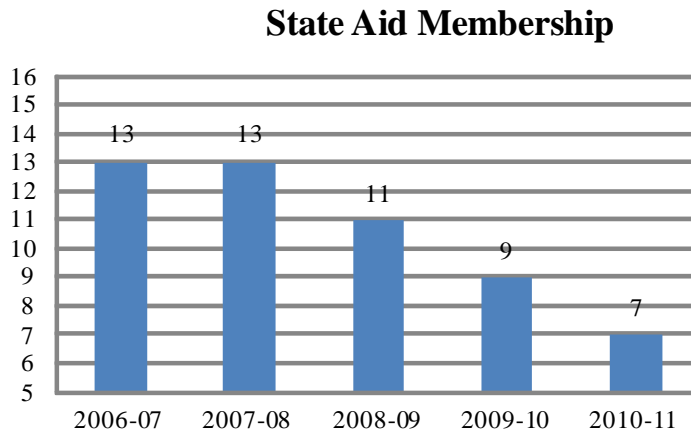
The school serves 6 students in grades K-6. Middle and high school students are transported to L'Anse or Baraga Schools and the board charges a transportation fee per student to each District.

Arvon Township School received \$46,185 in federal grants awarded on an annual basis. These grants include Title I, Title I ARRA, Title II, REAP, and the National Lunch Program.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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

The following graph depicts a decrease of two less students enrolled from the previous year, using the State Aid Membership Count.



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, 2011

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 534,600
Taxes receivable	31,333
Due from other governmental units	<u>5,102</u>
TOTAL CURRENT ASSETS	<u>571,035</u>
NONCURRENT ASSETS:	
Capital assets	312,160
Less: accumulated depreciation	<u>(86,870)</u>
TOTAL NONCURRENT ASSETS	<u>225,290</u>
TOTAL ASSETS	<u>\$ 796,325</u>
LIABILITIES:	
Accounts payable	\$ 30
Accrued expenses	659
Salaries payable	<u>1,541</u>
TOTAL LIABILITIES	<u>2,230</u>
NET ASSETS	
Invested in capital assets, net of related debt	225,290
Restricted for:	
Food Service	407
Unrestricted	<u>568,398</u>
TOTAL NET ASSETS	<u>794,095</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 796,325</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, 2011

	Program Revenues			Governmental Activities
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Government Activities:				
Instruction and instructional support	\$ 162,373	\$ -	\$ 45,256	\$ (117,117)
Support services	150,967	-	-	(150,967)
Community services	700	-	-	(700)
School service	4,706	152	949	(3,605)
	<u>\$ 318,746</u>	<u>\$ 152</u>	<u>\$ 46,205</u>	<u>(272,389)</u>
Total Governmental Activities				
General Revenues:				
Property taxes - general operations				318,389
State school aid - unrestricted				306
Interest and investment earnings				6,350
Other				12,427
				<u>337,472</u>
Total general revenues				<u>337,472</u>
Change in Net Assets				65,083
Net Assets - Beginning				<u>729,012</u>
Net Assets - Ending				<u>\$ 794,095</u>

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

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	<u>General</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 534,193	\$ 407	\$ 534,600
Taxes receivable	31,333	-	31,333
Due from other governmental units	5,102	-	5,102
TOTAL ASSETS	<u>\$ 570,628</u>	<u>\$ 407</u>	<u>\$ 571,035</u>
LIABILITIES:			
Accounts payable	\$ 30	\$ -	\$ 30
Salaries payable	1,541	-	1,541
Accrued expenses	659	-	659
TOTAL LIABILITIES	<u>2,230</u>	<u>-</u>	<u>2,230</u>
FUND BALANCES:			
Restricted:			
Food service	-	407	407
Unassigned	568,398	-	568,398
TOTAL FUND BALANCES	<u>568,398</u>	<u>407</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 570,628</u>	<u>\$ 407</u>	

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.	225,290
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Net assets of governmental activities	\$ 794,095
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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, 2011

	General Fund	Other Nonmajor Governmental Funds	Totals
Revenues			
Local sources	\$ 337,166	\$ 152	\$ 337,318
State sources	306	20	326
Federal sources	45,256	929	46,185
Total revenues	<u>382,728</u>	<u>1,101</u>	<u>383,829</u>
Expenditures			
Instruction	153,545	-	153,545
Supporting services	154,845	-	154,845
Community services	700	-	700
School service	-	4,706	4,706
Total expenditures	<u>309,090</u>	<u>4,706</u>	<u>313,796</u>
Excess (deficiency) of revenue over expenditures	73,638	(3,605)	70,033
Other Financing Sources (Uses)			
Operating transfers in	-	3,524	3,524
Operating transfers out	(3,524)	-	(3,524)
Total other financing sources (uses)	<u>(3,524)</u>	<u>3,524</u>	<u>-</u>
Net Change in Fund Balance	70,114	(81)	<u>70,033</u>
Fund Balances - Beginning of year	<u>498,284</u>	<u>488</u>	
Fund Balances - End of Year	<u>\$ 568,398</u>	<u>\$ 407</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 (4,950)

Change in net assets of governmental activities \$ 65,083

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, 2011

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments - checking	\$ 507
Cash and investments - scholarship	562
TOTAL ASSETS	<u>\$ 1,069</u>
LIABILITIES	
Gift Fund	\$ 507
Scholarship Fund	<u>562</u>
TOTAL LIABILITIES	<u>\$ 1,069</u>

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

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

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 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 allocate indirect costs.

The government-wide focus is more on the sustainability 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, 2011

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.

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.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011, the foundation allowance was based on pupil membership counts taken in February and September of 2010.

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.

Foundation		\$	8,470.00
Assumed Local Support	\$	477,667	
Divided by State Aid Membership		<u>6.32</u>	
Calculated Local Support			<u>(75,580.22)</u>
Out of Formula		\$	<u>(67,110.22)</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, 2011, the District levied 12 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.

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.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Balance - The District adopted the provisions of GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is presented on the face of the balance sheet.

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.

Reclassification - Certain items in the 2010 financial statements have been reclassified to conform with the current year presentation.

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.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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 - 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	<u>\$ 534,600</u>	<u>\$ 1,069</u>

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, 2011, 89.97% of the District’s bank balance was insured.

NOTE D - CAPITAL ASSETS

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

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Land	\$ 1	\$ -	\$ -	\$ 1
Capital assets being depreciated:				
Building and additions	101,476	-	-	101,476
Improvements other than building	158,182	1,888	-	160,070
Equipment and furniture	44,138	7,535	1,060	50,613
Subtotal	<u>303,796</u>	<u>\$ 9,423</u>	<u>\$ 1,060</u>	<u>312,159</u>
Accumulated depreciation:				
Building and additions	10,548	3,795	-	14,343
Improvements other than building	39,197	6,647	-	45,844
Equipment and furniture	23,811	3,932	1,060	26,683
Subtotal	<u>73,556</u>	<u>\$ 14,374</u>	<u>\$ 1,060</u>	<u>86,870</u>
Net capital assets being depreciated	<u>230,240</u>			<u>225,289</u>
Net capital assets	<u>\$ 230,241</u>			<u>\$ 225,290</u>

Depreciation expense in the amount of \$14,374 was charged to instruction and instructional support for the District under Governmental Activities.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

NOTE E - INTER-FUND TRANSFERS

General Fund made an inter-fund transfer to the School Food Service Fund in the amount of \$3,524 during the fiscal year ending June 30, 2011.

NOTE F - RECEIVABLES

General Fund receivables at June 30, 2011 that are expected to be collected within one year consist of the following:

	General Fund
Taxes Receivable	\$ 31,333
Due from other Governmental Units	5,102
	<u>\$ 36,435</u>

NOTE G - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2011, for the District’s individual major fund is as follows:

	<u>General Fund</u>
Fund Financial Statements:	
Salaries payable	\$ 1,541
Accounts Payable	30
Accrued expenses	659
	<u>\$ 2,230</u>

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

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

The retirement system is a tiered plan. Employees participate in either the Basic Plan, the Member Investment Plan (MIP), or the Hybrid Plan.

Plan Description - The District contributes to the Michigan Public School Employees' Retirement System (MPERS), 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. MPERS 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 MPERS. 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>.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

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

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.

Employees hired on or after July 1, 2010 are enrolled in the Hybrid Plan, with a blending of defined benefit and defined contribution components. Under this plan, employees would not be able to receive pension payments until age 60, and would be required to have worked at least ten years as a public school employee. The employee contributes \$510 annually, plus 7.3% of salary above \$15,000. Additionally, the employer matches member contributions at a rate of 50% of the employee's first 2% of salary contribution. The employee is able to contribute more than the 2% of salary, but employer contributions do not exceed 1% of total salary deposited. The District had no newly hired employees on or after this date as of June 30, 2011.

The rates for the year ended June 30, 2011 were 16.94% of covered compensation through September 30, 2010 and 20.66% for the remainder of the year for MIP members, and 19.16% for the Hybrid Plus Plan members. 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 MPERS for the years ended June 30, 2011, 2010, and 2009, were \$18,053, \$14,973, and \$14,684 respectively, equal to the required contributions for each year.

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 MPERS 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 exception of 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	\$	62,121
REAP Grant		15,691
Prior year receivable		(31,627)
Total Federal Financial Assistance	\$	<u>46,185</u>

The District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2011 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2011

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, 2011, 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, 2011

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance Final to Actual
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local sources	\$ 333,930	\$ 336,884	\$ 337,166	\$ 282
State sources	0	326	306	(20)
Federal sources	47,324	45,256	45,256	-
TOTAL REVENUE	381,254	382,466	382,728	262
EXPENDITURES:				
Instruction	162,445	153,555	153,545	10
Supporting services	152,163	159,151	154,845	4,306
Community services	470	750	700	50
TOTAL EXPENDITURES	315,078	313,456	309,090	4,366
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	66,176	69,010	73,638	4,628
OTHER FINANCING SOURCES (USES)				
Operating transfer out	(3,352)	(3,647)	(3,524)	123
Total other financing sources (uses)	(3,352)	(3,647)	(3,524)	123
NET CHANGE IN FUND BALANCE	\$ 62,824	\$ 65,363	70,114	\$ 4,751
FUND BALANCE - BEGINNING OF YEAR			498,284	
FUND BALANCE - END OF YEAR			\$ 568,398	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Years Ended June 30, 2011 and 2010

	2011			2010
	BUDGET	ACTUAL	VARIANCE	
REVENUES:				
Local sources:				
Taxes	\$ 318,389	\$ 318,389	\$ -	\$ 325,411
Other local sources:				
Investment revenue	6,068	6,350	282	6,469
Miscellaneous	12,427	12,427	-	11,625
Total other local sources	18,495	18,777	282	18,094
Total local sources	336,884	337,166	282	343,505
State sources	326	306	(20)	-
Federal sources:				
REAP	15,691	15,691	-	16,179
Title I	25,197	25,197	-	31,627
Title I ARRA	795	795	-	7,162
Title II A	3,573	3,573	-	3,514
Title II D ARRA	-	-	-	568
Total federal sources	45,256	45,256	-	59,050
TOTAL REVENUES	382,466	382,728	262	402,555
EXPENDITURES:				
Instruction:				
Basic program	111,872	111,862	10	105,276
Added needs:				
Compensatory education	41,683	41,683	-	54,968
Total instruction	153,555	153,545	10	160,244
Supporting Services:				
Improvement of instruction	3,573	3,573	-	4,082
Library	6,100	5,780	320	1,609
Board of education	15,484	14,602	882	13,240
Business-fiscal services	13,794	13,661	133	13,306
Operation and maintenance	37,115	35,005	2,110	48,951
Pupil transportation	82,700	81,909	791	80,581
Technology	385	315	70	391
Total supporting services	159,151	154,845	4,306	162,160
Community services	750	700	50	1,056
TOTAL EXPENDITURES	313,456	309,090	4,366	323,460

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Years Ended June 30, 2011 and 2010

	<u>2011</u>			<u>2010</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	
EXCESS OF REVENUES OVER EXPENDITURES	69,010	73,638	4,628	79,095
OTHER FINANCING SOURCES (USES):				
Operating transfer out	(3,647)	(3,524)	123	(3,058)
TOTAL OTHER FINANCING SOURCES (USES)	(3,647)	(3,524)	123	(3,058)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 65,363	70,114	\$ 4,751	76,037
FUND BALANCE, BEGINNING OF YEAR		498,284		422,247
FUND BALANCE, END OF YEAR		\$ 568,398		\$ 498,284

ARVON TOWNSHIP SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Years Ended June 30, 2011 and 2010

	<u>2011</u>			
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
REVENUES:				
Local sources - food sales	\$ 152	\$ 152	\$ -	\$ 104
State sources	20	20	-	79
Federal lunch program	929	929	-	665
TOTAL REVENUES	<u>1,101</u>	<u>1,101</u>	<u>-</u>	<u>848</u>
EXPENDITURES:				
Utilities	601	602	(1)	360
Food	657	657	-	375
Purchases	3,447	3,447	-	3,134
TOTAL EXPENDITURES	<u>4,705</u>	<u>4,706</u>	<u>(1)</u>	<u>3,869</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,604)</u>	<u>(3,605)</u>	<u>(1)</u>	<u>(3,021)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,647	3,524	123	3,058
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 43</u>	<u>(81)</u>	<u>\$ 38</u>	<u>(37)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>488</u>		<u>451</u>
FUND BALANCE, END OF YEAR		<u>\$ 407</u>		<u>\$ 488</u>

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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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 the financial statements of the governmental activities, and each major fund, of the Arvon Township School District as of and for the year then ended June 30, 2011 which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 17, 2011. 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 School 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 School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

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 significant deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will be not be prevented, detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined as above.

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*.

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

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

October 17, 2011

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COMMUNICATION WITH THOSE IN CHARGE OF GOVERNANCE

Board of Education
Arvon Township School District
Skaneec, Michigan

We have audited the financial statements of the governmental activities and each major fund of Arvon Township School District for the year ended June 30, 2011. 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 20, 2011 . Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by 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, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital 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 in determining that it is 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 October 17, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, 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 the governmental unit'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 Information in Documents Containing Audited Financial Statements

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

We appreciate your business, thank you.

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

October 17, 2011