

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2017**

**ARVON TOWNSHIP SCHOOL DISTRICT**

**June 30, 2017**

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**BOARD OF EDUCATION**

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# **RUKKILA | NEGRO AND ASSOCIATES**

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## **INDEPENDENT AUDITOR'S REPORT**

To the 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 ended June 30, 2017, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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, 2017, 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, budgetary comparison information, and pension requirements on pages 6 through 10 and 32 through 34 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 36 through 38 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 36 to 38 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 25, 2017 on our consideration of the 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 and Associates,  
Certified Public Accountants, PC*

September 25, 2017

**ARVON TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017**

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This section of Arvon Township School District's annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follows this section.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Position and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net position and the changes in the net position during the year are reported by these two statements. Increases or decreases in the District's net position is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

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.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

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 Service Fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund meets this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

**ARVON TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017**

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**Overview of the Financial Statements (Continued)**

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.

**Summary of Net Position**

	<u>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 709,993	\$ 719,048
Capital assets - Net	<u>190,311</u>	<u>205,306</u>
Total assets	<u>900,304</u>	<u>924,354</u>
Deferred outflows of resources - Pension	67,764	26,342
Liabilities		
Current liabilities	19,110	21,017
Noncurrent liabilities	8,549	7,799
Net pension liability	<u>352,295</u>	<u>299,641</u>
Total liabilities	<u>379,954</u>	<u>328,457</u>
Deferred inflows of resources - Pension	10,492	12,929
Net position		
Net investment in capital assets	181,762	197,507
Restricted		
Food service	345	277
Unrestricted	<u>395,515</u>	<u>411,526</u>
Total net position	<u>\$ 577,622</u>	<u>\$ 609,310</u>

**ARVON TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017**

**Overview of the Financial Statements (Continued)**

**Results of Operations in Governmental Activities**

	<u>2017</u>	<u>2016</u>
Program Revenues		
Charges for services	\$ 403	\$ 273
Operating grants and contributions	61,144	59,476
General Revenues		
Taxes	291,432	304,723
Unrestricted state aid	1,030	741
Earnings on investments	1,552	1,611
Other	1,017	1,420
Total revenues	<u>356,578</u>	<u>368,244</u>
Functions/program expenses		
Instruction	228,965	211,838
Supporting services	149,180	156,456
Community services	405	503
School service	9,716	7,964
Total expenses	<u>388,266</u>	<u>376,761</u>
Change in net position	(31,688)	(8,517)
Net position - Beginning	<u>609,310</u>	<u>617,613</u>
Net position - Ending	<u>\$ 577,622</u>	<u>\$ 609,310</u>

The following table highlights the District's General Fund activities:

	<u>2017</u>	<u>% of total</u>	<u>2016</u>	<u>% of total</u>	<u>Change</u>
Revenues					
Taxes	\$ 291,432	81.8 %	\$ 304,723	82.8 %	(13,291)
Other local	2,569	0.7 %	3,031	0.8 %	(462)
Federal sources	43,438	12.2 %	46,358	12.6 %	(2,920)
State sources	18,736	5.3 %	14,073	3.8 %	4,663
Total revenues	<u>\$ 356,175</u>	<u>100.0 %</u>	<u>368,185</u>	<u>100.0 %</u>	<u>\$ (12,010)</u>
Expenditures					
Pupil transportation	\$ 70,329	19.9 %	\$ 70,300	18.7 %	\$ 29
Instruction	209,969	59.3 %	206,109	55.1 %	3,860
Improvement of instruction	2,283	0.6 %	2,315	0.6 %	(32)
Board of education	13,383	3.8 %	13,714	3.7 %	(331)
Business-fiscal services	17,632	5.0 %	21,351	5.7 %	(3,719)
Community services	405	0.1 %	503	0.1 %	(98)
Operations & maintenance	37,245	10.5 %	56,333	15.1 %	(19,088)
Technology	2,764	0.8 %	3,609	1.0 %	(845)
Total expenditures	<u>\$ 354,010</u>	<u>100.0 %</u>	<u>\$ 374,234</u>	<u>100.0 %</u>	<u>\$ (20,224)</u>



**ARVON TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017**

**Overview of the Financial Statements (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 revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
General Fund			
Revenues/Transfers	\$ 356,175	\$ 368,185	\$ (12,010)
Expenditures/Transfers	\$ 363,391	\$ 382,036	\$ (18,645)
Fund Balance	\$ 690,538	\$ 697,754	\$ (7,216)
School Service Fund			
Revenues/Transfers	\$ 9,784	\$ 8,075	\$ 1,709
Expenditures/Transfers	\$ 9,716	\$ 7,964	\$ 1,752
Fund Balance	\$ 345	\$ 277	\$ 68

General Fund: Revenue changes of \$12,010, are due to a decreases in property taxes and federal sources. Expenditures decreased by \$18,645 due to a decreases in operations and business service expenses.

School Service Fund: Revenue changes were due to a transfer from General Fund.

**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, 2017, the original budget was adopted on June 25, 2015. 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.

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Final to Actual</u>	<u>% Variance</u>
	<u>Original</u>	<u>Final</u>			
Revenues	\$ 354,365	\$ 356,152	\$ 356,175	\$ 23	-
Expenditures					
Instruction	\$ 202,867	\$ 210,270	\$ 209,969	\$ 301	0.1 %
Supporting services	147,252	145,221	143,636	1,585	1.1 %
Purchased services	550	450	405	45	10.0 %
Total expenditures	\$ 350,669	\$ 355,941	\$ 354,010	\$ 1,931	0.5 %
Other financing sources (uses)	\$ (7,802)	\$ (9,377)	\$ (9,381)	\$ (4)	-

Revenues increased by \$1,787 from the original to final budget due to the increase in MPSERS UAAL Rate Stabilization revenues.

**ARVON TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017**

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**Analysis of Financial Position**

During the fiscal year ended June 30, 2017, the District's net capital assets decreased by \$14,995 due to depreciation. Details of the District's capital assets can be found on page 23.

**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 2016-2017, the amount levied for the District was \$291,432.

Arvon Township School District received \$43,438 in federal grants awarded on an annual basis. These grants include Title I, Title II, and REAP.

The following graph depicts that student enrollment increased by 1 student, using the State Aid Membership Count.

Year	Student Total	Change
2012-13	8	-
2013-14	8	-
2014-15	7	(1)
2015-16	8	1
2016-17	12	3.6

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

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, 2017**

Assets	
Cash and cash equivalents	\$ 697,255
Accounts receivable	12,738
Capital assets - Net	<u>190,311</u>
Total assets	<u>900,304</u>
Deferred outflows of resources - Pension	67,764
Liabilities	
Accounts payable	5,097
Accrued expenditures	3,432
Salaries payable	10,581
Compensated absences	8,549
Net pension liability	<u>352,295</u>
Total liabilities	<u>379,954</u>
Deferred inflows of resources - Pension	10,492
Net position	
Net investment in capital assets	181,762
Restricted	
Food service	345
Unrestricted	<u>395,515</u>
Total net position	<u><u>\$ 577,622</u></u>

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

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2017**

	Program Revenues			Governmental Activities
Expenditures	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	\$ 228,965	\$ -	\$ 61,144	\$ (167,821)
Support services	149,180	-	-	(149,180)
School food service	9,716	403	-	(9,313)
Community Service	405	-	-	(405)
Total governmental activities	<u>\$ 388,266</u>	<u>\$ 403</u>	<u>\$ 61,144</u>	<u>(326,719)</u>
General revenues:				
Taxes, levied for general operations				291,432
Unrestricted state aid				1,030
Earnings on investments				1,552
Miscellaneous				1,017
Total general revenues				<u>295,031</u>
Change in net position				(31,688)
Net position - Beginning of year				<u>609,310</u>
Net position - End of year				<u>\$ 577,622</u>

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

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2017**

	<u>General Fund</u>	<u>Non-Major Fund Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 696,910	\$ 345	\$ 697,255
Accounts receivable	12,738	-	12,738
<b>Total assets</b>	<b><u>\$ 709,648</u></b>	<b><u>\$ 345</u></b>	<b><u>\$ 709,993</u></b>
<b>Liabilities</b>			
Accounts payable	\$ 5,097	\$ -	\$ 5,097
Accrued expenditures	3,432	-	3,432
Salaries payable	10,581	-	10,581
<b>Total liabilities</b>	<b><u>19,110</u></b>	<b><u>-</u></b>	<b><u>19,110</u></b>
<b>Fund balances</b>			
Restricted			
Food service	-	345	345
Unassigned	690,538	-	690,538
<b>Total fund balances</b>	<b><u>690,538</u></b>	<b><u>345</u></b>	<b><u>690,883</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 709,648</u></b>	<b><u>\$ 345</u></b>	<b><u>\$ 709,993</u></b>

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

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE BALANCE SHEET TO**  
**THE STATEMENT OF NET POSITION**  
**June 30, 2017**

Fund Balance Reported in Governmental Funds	\$ 690,883
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	(8,549)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	190,311
Net pension liability	(352,295)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	67,764
Deferred inflows from the difference between projected and actual investment earnings of the pension plan.	<u>(10,492)</u>
Net position of governmental activities	<u><u>\$ 577,622</u></u>

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

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Non-Major Fund Food Service Fund</u>	<u>Total</u>
Revenues			
Local sources	\$ 294,001	\$ 403	\$ 294,404
State sources	18,736	-	18,736
Federal sources	43,438	-	43,438
Total revenues	<u>356,175</u>	<u>403</u>	<u>356,578</u>
Expenditures			
Instruction	209,969	-	209,969
Supporting services	143,636	-	143,636
Community services	405	-	405
School service	-	9,716	9,716
Total expenditures	<u>354,010</u>	<u>9,716</u>	<u>363,726</u>
Excess (deficiency) of revenues over expenditures	<u>2,165</u>	<u>(9,313)</u>	<u>(7,148)</u>
Other financing sources (uses)			
Operating transfers in	-	9,381	9,381
Operating transfers out	(9,381)	-	(9,381)
Total other financing sources (uses)	<u>(9,381)</u>	<u>9,381</u>	<u>-</u>
Net change in fund balances	(7,216)	68	(7,148)
Fund balances - Beginning of year	<u>697,754</u>	<u>277</u>	<u>698,031</u>
Fund balances - End of year	<u>\$ 690,538</u>	<u>\$ 345</u>	<u>\$ 690,883</u>

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

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$	(7,148)
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		(750)
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		(14,995)
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds		<u>8,795</u>
Change in net position of governmental activities	\$	<u><u>(31,688)</u></u>

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



**ARVON TOWNSHIP SCHOOL DISTRICT**  
**FIDUCIARY FUNDS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**June 30, 2017**

	<u>Trust and Agency Fund</u>
Assets	
Cash and investments	\$ 1,647
Total assets	<u>\$ 1,647</u>
Liabilities	
Gift fund	\$ 75
Scholarship funds	<u>1,572</u>
Total liabilities	<u>\$ 1,647</u>

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

**ARVON TOWNSHIP SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

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**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 School District (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 three parts – net investment in capital assets, restricted, 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, 2017**

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**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 Funds – 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 financial 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, 2017**

**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, 2017, the foundation allowance was based on pupil membership counts taken in February and October.

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		\$ 8,229.00
Less Local Support:		
Assumed Local Revenue	\$ 524,965.00	
Divided by General Education K-12 membership	11.60	
Calculated Local Support		(45,255.60)
Foundation Grant Allowance Per Pupil		\$ (37,026.60)

*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 Arvon Township 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, 2017, 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.

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, 2017**

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**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

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.

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

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 \$8,549 consist 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, 2017**

**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 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 - DEPOSITS AND INVESTMENTS**

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

	Governmental Funds	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 697,255	\$ 1,647	\$ 698,902

*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, 2017, the District’s bank balance was 100% insured.

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

**NOTE D - CAPITAL ASSETS**

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

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Capital assets, being depreciated				
Buildings and additions	113,747	\$ -	\$ -	113,747
Improvements other than building	193,817	-	-	193,817
Equipment and furniture	55,363	-	-	55,363
Subtotal	<u>362,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>362,927</u>
Accumulated depreciation				
Building and additions	33,321	\$ 3,795	\$ -	37,116
Improvements other than building	81,800	8,500	-	90,300
Equipment and furniture	42,501	2,700	-	45,201
Subtotal	<u>157,622</u>	<u>\$ 14,995</u>	<u>\$ -</u>	<u>172,617</u>
Net capital assets being depreciated	<u>205,305</u>			<u>190,310</u>
Net capital assets	<u>\$ 205,306</u>			<u>\$ 190,311</u>

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

Governmental activities	
Instruction	\$ 10,208
Operations	4,787
Total governmental	<u>\$ 14,995</u>

**NOTE E - INTER-FUND TRANSFERS**

General Fund made an inter-fund transfer to the School Food Service Fund in the amount of \$9,381 during the fiscal year ending June 30, 2017.

**NOTE F - RECEIVABLES**

Receivables at June 30, 2017 that are expected to be collected within one year are \$12,738 in the general fund.

**NOTE G - PAYABLES**

Accounts payable and accrued liabilities as of June 30, 2017, for the District are as follows:

<u>Payables</u>	<u>General Fund</u>
Accounts payable	\$ 5,097
Compensated absences	8,549
Accrued expenditures	3,432
Salaries payable	10,581
Total payables	<u>\$ 27,659</u>

**ARVON TOWNSHIP SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

**NOTE H - DEFINED BENEFIT PLAN**

Plan Description

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

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

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

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefit provisions of the defined pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. Defined benefit pension plan members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to defined benefit pension plan members. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% to 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employee's Retirement System (MPSERS) who became a member of the MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution tax-deferred investment account that earns an employer match of 50% (up to 1 % of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.



**ARVON TOWNSHIP SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

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**NOTE H - DEFINED BENEFIT PLAN (Continued)**

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided the member worked through their 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC

Option 2 - Credited Service after the Transition Date (until total service reached 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401 (k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

*Final Average Compensation (FAC)* - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

**ARVON TOWNSHIP SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

**NOTE H - DEFINED BENEFIT PLAN (Continued)**

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 20-year period for fiscal year 2016.

The District's contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by ORS. The range of rates is as follows:

October 1, 2015 - September 30, 2016 14.56% - 18.95%  
 October 1, 2016 - September 30, 2017 15.27% - 19.03%

Required contributions to the pension plan from Arvon Township School District were \$31,708 for the year ended September 30, 2016.

Pension Liabilities

At June 30, 2017, the District reported a liability of \$352,295 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was .00141% and .00123%.

<u>MPSERS (Plan) Non-university employers</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Total Pension Liability	\$67,917,445,078	\$66,312,041,902
Plan Fiduciary Net Pension	\$42,968,263,308	\$41,887,015,147
Net Pension Liability	\$24,949,181,770	\$24,425,026,755
Proportionate Share	.00141%	0.00123%
Net Pension Liability for the District	\$352,295	\$299,641

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

For the year ended June 30, 2017, the District recognized total pension expense of \$39,635. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**ARVON TOWNSHIP SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

**NOTE H - DEFINED BENEFIT PLAN (Continued)**

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 4,391	\$ 835
Changes of assumptions	5,508	-
Net difference between projections and actual earnings on pension plan investments	5,855	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	34,549	9,657
District's contributions subsequent to the measurement date	17,461	-
Total	<u>\$ 67,764</u>	<u>\$ 10,492</u>

\$17,461 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ending September 30	Amount
2017	\$ 8,832
2018	\$ 8,371
2019	\$ 15,440
2020	\$ 7,168

Actuarial Assumptions

*Investment rate of return* - 8.0% per year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% per year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

*Salary increases* - The rate of pay increase used for individual members is 3.5%.

*Inflation* - 2.5%

*Mortality Assumptions* - RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

*Experience Study* - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

*Long-Term Expected Return on Plan Assets* - The long-term expected rate of return on pension plan investments - The rate of 8% (7% for Pension Plus Plan) net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

**NOTE H - DEFINED BENEFIT PLAN (Continued)**

The target asset allocation as of September 30, 2016 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

*Discount Rate* - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	<u>1% Lower (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
District's proportionate share of the net pension liability	\$ 453,667	\$ 352,295	\$ 266,828

*Pension Plan Fiduciary Net Position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

*Payable to the Pension Plan* - At year end the District is current on all required pension plan payments.

**ARVON TOWNSHIP SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS - June 30, 2017**

**NOTE H - DEFINED BENEFIT PLAN (Continued)**

Other Information

*Discount Rate - Assumed Rate of Return*

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

*Pension Reform 2017*

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**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	\$	50,188
Prior year grants		(26,348)
Grant receivable		1,913
REAP		17,685
Total Federal Financial Assistance	\$	<u>43,438</u>

The District expended less than \$750,000 in Federal awards during the fiscal year ended June 30, 2017 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, 2017**

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**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.

**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 2015, Governmental Accounting Standards Board (GASB), issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which will be effective for the District's 2018 fiscal year. The Statement will require School Districts who participate in defined benefit other post-employment benefit (OPEB) plans to report a net OPEB liability in the statement of net position. The School District will be required to recognize on the statement of net position their proportionate share of the net OPEB liability related to its participation in the MPERS plan. There will be revised note disclosures and required supplementary information which will enhance the comparability and consistency of how governments calculate the OPEB liabilities and expense.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final to <u>Actual</u>
Revenues				
Local sources	\$ 296,852	\$ 293,977	\$ 294,001	\$ 24
State sources	14,074	18,737	18,736	(1)
Federal sources	43,439	43,438	43,438	-
Total revenues	<u>354,365</u>	<u>356,152</u>	<u>356,175</u>	<u>23</u>
Expenditures				
Instruction	202,867	210,270	209,969	301
Supporting services	147,252	145,221	143,636	1,585
Community services	550	450	405	45
Total expenditures	<u>350,669</u>	<u>355,941</u>	<u>354,010</u>	<u>1,931</u>
Excess (deficiency) of revenues over expenditures	3,696	211	2,165	1,954
Other financing sources (uses)				
Operating transfers out	<u>(7,802)</u>	<u>(9,377)</u>	<u>(9,381)</u>	<u>(4)</u>
Total other financing sources (uses)	<u>(7,802)</u>	<u>(9,377)</u>	<u>(9,381)</u>	<u>(4)</u>
Net change in fund balances	<u>\$ (4,106)</u>	<u>\$ (9,166)</u>	(7,216)	<u>\$ 1,950</u>
Fund balances - Beginning of year			<u>697,754</u>	
Fund balances - End of year			<u>\$ 690,538</u>	



**ARVON TOWNSHIP SCHOOL DISTRICT  
PENSION REQUIREMENTS  
Year Ended June 30, 2017**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan  
Last Three Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>9/30/2014</u>	<u>9/30/2015</u>	<u>9/30/2016</u>
A. District's proportion of net pension liability	0.00129	0.00122 %	0.00141 %
B. District's proportionate share of net pension liability	\$ 284,327	\$ 299,641	\$ 352,295
C. District's covered payroll	\$ 121,083	\$ 105,628	\$ 125,054
D. District's proportionate share of net pension liability as a percentage of its covered payroll	43 %	35 %	35 %
E. Plan fiduciary net position as a percentage of total pension liability	66.20 %	63.17 %	63.27 %

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

Michigan Public School Employees Retirement Plan  
Last Three Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
A. Statutorily required contributions	\$ 22,662	\$ 21,459	\$ 23,661
B. Contributions in relation to statutorily required contributions	22,675	21,459	23,661
C. Contribution deficiency (excess)	<u>\$ (13)</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 102,222	\$ 109,880	\$ 125,175
E. Contributions as a percentage of covered-employee	22 %	20 %	19 %

**ARVON TOWNSHIP SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2017**

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**NOTE A - CHANGE OF BENEFIT TERMS**

There were no changes of benefit terms in 2016.

**NOTE B - CHANGE OF ASSUMPTIONS**

There were no changes of benefit assumptions in 2016.

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Taxes	\$ 291,432	\$ 291,432	\$ -
Earnings on investments	1,528	1,552	24
Miscellaneous	1,017	1,017	-
Total local sources	<u>293,977</u>	<u>294,001</u>	<u>24</u>
State sources	<u>18,737</u>	<u>18,736</u>	<u>(1)</u>
Total state sources	<u>18,737</u>	<u>18,736</u>	<u>(1)</u>
Federal sources			
REAP	17,685	17,685	-
Title I	23,470	23,470	-
Title II	2,283	2,283	-
Total federal sources	<u>43,438</u>	<u>43,438</u>	<u>-</u>
Total revenues	<u>356,152</u>	<u>356,175</u>	<u>23</u>
Expenditures			
Instruction			
Basic program	169,115	168,815	300
Compensatory education	41,155	41,154	1
Total instruction	<u>210,270</u>	<u>209,969</u>	<u>301</u>
Supporting services			
Instructional staff			
Improvement of instruction	2,283	2,283	-
Library	2,700	2,437	263
Total instructional staff	<u>4,983</u>	<u>4,720</u>	<u>263</u>
General administration			
Board of education	13,829	13,383	446
Total general administration	<u>13,829</u>	<u>13,383</u>	<u>446</u>
Business-fiscal services	17,568	17,632	(64)
Operations & maintenance	38,214	37,245	969
Pupil transportation	70,300	70,329	(29)
Technical support	327	327	-
Total supporting services	<u>145,221</u>	<u>143,636</u>	<u>1,585</u>
Community services	<u>450</u>	<u>405</u>	<u>45</u>
Total expenditures	<u>355,941</u>	<u>354,010</u>	<u>1,931</u>

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Excess (deficiency) of revenues over expenditures	<u>211</u>	<u>2,165</u>	<u>1,954</u>
Other financing sources (uses)			
Operating transfers out	<u>(9,377)</u>	<u>(9,381)</u>	<u>(4)</u>
Total other financing sources (uses)	<u>(9,377)</u>	<u>(9,381)</u>	<u>(4)</u>
Net change in fund balances	<u>\$ (9,166)</u>	<u>(7,216)</u>	<u>\$ 1,950</u>
Fund balances - Beginning of year		<u>697,754</u>	
Fund balances - End of year		<u>\$ 690,538</u>	

**ARVON TOWNSHIP SCHOOL DISTRICT**  
**SCHOOL SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Other food sales	\$ 403	\$ 403	\$ -
Total revenues	<u>403</u>	<u>403</u>	<u>-</u>
Expenditures			
Purchased services	9,723	9,716	7
Total expenditures	<u>9,723</u>	<u>9,716</u>	<u>7</u>
Excess (deficiency) of revenues over expenditures	(9,320)	(9,313)	7
Other financing sources (uses)			
Operating transfers in	9,377	9,381	4
Total other financing sources (uses)	<u>9,377</u>	<u>9,381</u>	<u>4</u>
Net change in fund balances	<u>\$ 57</u>	68	<u>\$ 3</u>
Fund balances - Beginning of year		<u>277</u>	
Fund balances - End of year		<u>\$ 345</u>	

## **COMMUNICATIONS SECTION**

# RUKKILA | NEGRO AND ASSOCIATES

*Certified Public Accountants, PC*

310 Sheldon Avenue, Houghton, Michigan 49931  
906.482.6601 906.482.9046 fax www.rukkilanegro.com

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education  
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 School District as of and for the year then ended June 30, 2017 and the related notes to the financial statements and have issued our report thereon dated September 25, 2017.

### **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 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, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 25, 2017

# **RUKKILA | NEGRO AND ASSOCIATES**

*Certified Public Accountants, PC*

310 Sheldon Avenue, Houghton, Michigan 49931  
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## **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

To the Board of Education  
Arvon Township School District  
Skaneec, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable Government 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 31, 2017. 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, 2017. 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 25, 2017.

### *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.

We appreciate your business, thank you.

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

September 25, 2017