

ARVON TOWNSHIP SCHOOL DISTRICT
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2019

ARVON TOWNSHIP SCHOOL DISTRICT

June 30, 2019

BOARD OF EDUCATION

President.....	Terri Martin
Vice President.....	Steve Fair
Treasurer.....	Nancy Soli
Secretary.....	Susan Bollech
Trustee.....	Heather Stiebe

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	6
BASIC FINANCIAL STATEMENTS	
<u>District-wide Financial Statements:</u>	
Statement of Net Position.....	11
Statement of Activities.....	12
<u>Fund Financial Statements:</u>	
Governmental Funds:	
Balance Sheet.....	13
Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Governmental Funds.....	16
Fiduciary Funds - Statement of Assets and Liabilities.....	17
NOTES TO FINANCIAL STATEMENTS	18
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund.....	35
Pension Requirements	
Schedule of the District's Proportionate Share of the Net Pension Liability.....	36
Schedule of the District Contributions.....	36
OPEB Requirements	
Schedule of the District's Proportionate Share of Net OPEB Liability.....	37
Schedule of the District Contributions.....	37
Notes to the Required Supplementary Information.....	38
OTHER SUPPLEMENTAL FINANCIAL INFORMATION	
General Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances.....	40
School Food Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances.....	41
COMMUNICATIONS SECTION	
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 <i>Government Auditing Standards</i>	43
Communication with Those Charged With Governance.....	45
Comments and Recommendations.....	48

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

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, 2019, 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, 2019, 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 35 through 38 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 40 through 41 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 40 to 41 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 October 14, 2019 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*

October 14, 2019

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

As management of the Arvon Township School District (“the District”), we provide readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
 - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District’s assets, deferred outflows of resources, liabilities and deferred inflow of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net position, and how they have changed. Net position -the difference between the District’s assets, deferred outflows of resources, liabilities, and deferred inflow of resources-is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District’s activities are presented as follows:

- *Governmental activities:* The District’s basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects funds) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds.

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

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.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Financial Analysis of the District as a Whole

Summary of Net Position

	<u>2019</u>	<u>2018</u>
Assets		
Current assets	\$ 646,823	\$ 679,280
Capital assets - Net	<u>172,564</u>	<u>183,035</u>
Total assets	<u>819,387</u>	<u>862,315</u>
Deferred outflows of resources	180,593	112,908
Liabilities		
Current liabilities	20,734	18,342
Noncurrent liabilities	8,156	9,703
Net pension liability	457,444	389,354
Net OPEB liability	<u>120,718</u>	<u>131,757</u>
Total liabilities	<u>607,052</u>	<u>549,156</u>
Deferred inflows of resources	65,742	31,167
Net position		
Net investment in capital assets	172,564	183,035
Restricted		
Food service	1,647	1,030
Unrestricted	<u>152,975</u>	<u>210,835</u>
Total net position	<u>\$ 327,186</u>	<u>\$ 394,900</u>

Results of Operations in Governmental Activities

	<u>2019</u>	<u>2018</u>
Program Revenues		
Charges for services	\$ 617	\$ 685
Operating grants and contributions	40,074	50,643
General Revenues		
Taxes	293,298	298,711
Unrestricted state aid	1,477	1,159
Earnings on investments	1,523	1,559
Other	<u>1,664</u>	<u>1,236</u>
Total revenues	<u>338,653</u>	<u>353,993</u>
Functions/program expenses		
Instruction	243,836	229,590
Supporting services	154,271	164,232
Community services	275	425
School service	<u>7,985</u>	<u>8,874</u>
Total expenses	<u>406,367</u>	<u>403,121</u>
Change in net position	(67,714)	(49,128)
Net position - Beginning	<u>394,900</u>	<u>444,028</u>
Net position - Ending	<u>\$ 327,186</u>	<u>\$ 394,900</u>

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

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

	<u>2019</u>	<u>% of total</u>	<u>2018</u>	<u>% of total</u>	<u>Change</u>
Revenues					
Taxes	\$ 293,298	86.8 %	\$ 298,711	84.5 %	(5,413)
Other local	3,187	0.9 %	2,795	0.8 %	392
Federal sources	17,116	5.1 %	26,750	7.6 %	(9,634)
State sources	24,435	7.2 %	25,052	7.1 %	(617)
Total revenues	\$ 338,036	100.0 %	353,308	100.0 %	\$ (15,272)
Expenditures					
Pupil transportation	\$ 78,834	21.6 %	\$ 83,631	22.7 %	\$ (4,797)
Instruction	212,282	58.1 %	205,591	54.8 %	6,691
Instructional staff	5,567	1.5 %	5,295	1.4 %	272
Board of education	14,697	4.0 %	13,094	3.5 %	1,603
Business-fiscal services	16,225	4.4 %	21,037	5.6 %	(4,812)
Community services	275	0.1 %	425	0.1 %	(150)
Operations & maintenance	37,298	10.2 %	44,273	11.8 %	(6,975)
Technology	339	0.1 %	336	0.1 %	3
Total expenditures	\$ 365,517	100.0 %	\$ 375,064	100.0 %	\$ (8,165)

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>2019</u>	<u>2018</u>	<u>Change</u>
General Fund			
Revenues/Transfers	\$ 338,036	\$ 353,308	\$ (15,272)
Expenditures/Transfers	\$ 373,502	\$ 383,938	\$ (10,436)
Fund Balance	\$ 624,442	\$ 659,908	\$ (35,466)
School Service Fund			
Revenues/Transfers	\$ 8,602	\$ 9,559	\$ (957)
Expenditures/Transfers	\$ 7,985	\$ 8,874	\$ (889)
Fund Balance	\$ 1,647	\$ 1,030	\$ 617

General Fund: Expenditures decreased by \$10,436 due to a combination of an increase in instruction and decreases in business-fiscal services, operations and maintenance, pupil transportation, and technical support.

School Service Fund: There were no significant changes in the School Service 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, 2019, the original budget was adopted on June 28, 2018. 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.

**ARVON TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

General Fund Budgetary Highlights (Continued)

	Budgeted Amounts		Actual	Variance Final to Actual	% Variance
	Original	Final			
Revenues	\$ 341,719	\$ 341,719	\$ 338,036	\$ (3,683)	(1.1)%
Expenditures					
Instruction	\$ 218,890	\$ 218,890	\$ 212,282	\$ 6,608	3.0 %
Supporting services	189,197	189,197	152,960	36,237	19.2 %
Community services	400	400	275	125	31.3 %
Total expenditures	\$ 408,487	\$ 408,487	\$ 365,517	\$ 42,970	10.5 %
Other financing sources (uses)	\$ (7,800)	\$ (7,800)	\$ (7,985)	\$ (185)	2.4 %

Analysis of Financial Position

During the fiscal year ended June 30, 2019, the District’s net capital assets decreased by \$10,471 due to building improvements and depreciation. Details of the District’s capital assets can be found on page 23.

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 17.6976 mills of non-homestead property taxes allowed. In 2018-2019, the amount levied for the District was \$293,330.

Arvon Township School District received \$17,116 in federal grants awarded on an annual basis. These grants include Title II and REAP.

The following graph depicts that student enrollment decreased by 3 students, using the State Aid Membership Count.

Year	Student Total	Change
2014-15	7	(1)
2015-16	8	1
2016-17	12	4
2017-18	13	1
2018-19	10	(3)

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 17.6976 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, 2019

Assets	
Cash and cash equivalents	\$ 640,845
Accounts receivable	5,978
Capital assets - Net	<u>172,564</u>
Total assets	<u>819,387</u>
Deferred outflows of resources	
Deferred outflows of resources - Pension	157,539
Deferred outflows of resources - OPEB	<u>23,054</u>
Total outflows of resources	<u>180,593</u>
Liabilities	
Accounts payable	5,339
Accrued expenditures	3,990
Salaries payable	11,405
Compensated absences	8,156
Net pension liability	457,444
Net OPEB liability	<u>120,718</u>
Total liabilities	<u>607,052</u>
Deferred inflows of resources	
Deferred inflows of resources - Pension	38,283
Deferred inflows of resources - OPEB	<u>27,459</u>
Total inflows of resources	<u>65,742</u>
Net position	
Net investment in capital assets	172,564
Restricted	
Food service	1,647
Unrestricted	<u>152,975</u>
Total net position	<u>\$ 327,186</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, 2019

	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	\$ 243,836	\$ -	\$ 40,074	\$ (203,762)
Support services	154,271	-	-	(154,271)
School food service	7,985	617	-	(7,368)
Community Service	275	-	-	(275)
Total governmental activities	<u>\$ 406,367</u>	<u>\$ 617</u>	<u>\$ 40,074</u>	<u>(365,676)</u>
General revenues:				
Taxes, levied for general operations				293,298
Unrestricted state aid				1,477
Earnings on investments				1,523
Miscellaneous				1,664
Total general revenues				<u>297,962</u>
Change in net position				(67,714)
Net position - Beginning of year				<u>394,900</u>
Net position - End of year				<u>\$ 327,186</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, 2019

	<u>General Fund</u>	<u>Non-Major Fund Food Service Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 639,198	\$ 1,647	\$ 640,845
Accounts receivable	5,978	-	5,978
Total assets	<u>\$ 645,176</u>	<u>\$ 1,647</u>	<u>\$ 646,823</u>
Liabilities			
Accounts payable	\$ 5,339	\$ -	\$ 5,339
Accrued expenditures	3,990	-	3,990
Salaries payable	11,405	-	11,405
Total liabilities	<u>20,734</u>	<u>-</u>	<u>20,734</u>
Fund balances			
Restricted			
Food service	-	1,647	1,647
Assigned	74,568	-	74,568
Unassigned	549,874	-	549,874
Total fund balances	<u>624,442</u>	<u>1,647</u>	<u>626,089</u>
Total liabilities and fund balances	<u>\$ 645,176</u>	<u>\$ 1,647</u>	<u>\$ 646,823</u>

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, 2019

Fund Balance Reported in Governmental Funds	\$ 626,089
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	(8,156)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	172,564
Net pension liability	(457,444)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	157,539
Deferred inflows from the difference between projected and actual investment earnings of the pension plan	(38,283)
OPEB liability	(120,718)
Deferred outflows from the difference between OPEB changes of assumptions and contributions subsequent to the measurement date	23,054
Deferred inflows from the difference between projected and actual investment earnings of the OPEB plan	<u>(27,459)</u>
Net position of governmental activities	<u><u>\$ 327,186</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, 2019

	<u>General Fund</u>	<u>Non-Major Fund Food Service Fund</u>	<u>Total</u>
Revenues			
Local sources	\$ 296,485	\$ 617	\$ 297,102
State sources	24,435	-	24,435
Federal sources	17,116	-	17,116
Total revenues	<u>338,036</u>	<u>617</u>	<u>338,653</u>
Expenditures			
Instruction	212,282	-	212,282
Supporting services	152,960	-	152,960
Community services	275	-	275
School service	-	7,985	7,985
Total expenditures	<u>365,517</u>	<u>7,985</u>	<u>373,502</u>
Excess (deficiency) of revenues over expenditures	<u>(27,481)</u>	<u>(7,368)</u>	<u>(34,849)</u>
Other financing sources (uses)			
Operating transfers in	-	7,985	7,985
Operating transfers out	<u>(7,985)</u>	<u>-</u>	<u>(7,985)</u>
Total other financing sources (uses)	<u>(7,985)</u>	<u>7,985</u>	<u>-</u>
Net change in fund balances	(35,466)	617	(34,849)
Fund balances - Beginning of year	<u>659,908</u>	<u>1,030</u>	<u>660,938</u>
Fund balances - End of year	<u>\$ 624,442</u>	<u>\$ 1,647</u>	<u>\$ 626,089</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, 2019

Net Change in Fund Balances - Total Governmental Funds	\$	(34,849)
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		1,547
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		(10,471)
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds		27,509
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds		<u>(3,568)</u>
Change in net position of governmental activities	\$	<u><u>(67,714)</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, 2019

	<u>Trust and Agency Fund</u>
Assets	
Cash and investments	\$ 1,872
Total assets	<u>\$ 1,872</u>
Liabilities	
Gift fund	\$ 75
Scholarship funds	<u>1,797</u>
Total liabilities	<u>\$ 1,872</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, 2019

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, 2019**

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, 2019**

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, 2019, 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 17.6976 mills. Based on the District's non-homestead tax value and the student membership, the district is out of formula.

Foundation		\$	8,409.00
Less Local Support:			
Assumed Local Revenue	\$	527,523.00	
Divided by General Education K-12 membership		11.63	
Calculated Local Support			<u>(45,358.81)</u>
Foundation Grant Allowance Per Pupil			<u>\$ (36,949.81)</u>

Other Accounting Policies

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average balance for the principal.

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

Property Taxes – Property taxes levied by the District are collected by 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, 2019, 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, 2019**

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 \$8,156 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, 2019**

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, 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	\$ 640,845	\$ 1,872	\$ 642,717

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, 2019, the District’s bank balance was 100% insured.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE D - CAPITAL ASSETS

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

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Capital assets, being depreciated				
Buildings and additions	115,608	\$ 4,640	\$ -	120,248
Improvements other than building	198,193	-	-	198,193
Equipment and furniture	56,853	-	-	56,853
Subtotal	<u>370,654</u>	<u>\$ 4,640</u>	<u>\$ -</u>	<u>375,294</u>
Accumulated depreciation				
Building and additions	41,221	\$ 4,211	\$ -	45,432
Improvements other than building	99,201	8,938	-	108,139
Equipment and furniture	47,198	1,962	-	49,160
Subtotal	<u>187,620</u>	<u>\$ 15,111</u>	<u>\$ -</u>	<u>202,731</u>
Net capital assets being depreciated	<u>183,034</u>			<u>172,563</u>
Net capital assets	<u>\$ 183,035</u>			<u>\$ 172,564</u>

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

Governmental activities	
Instruction	\$ 10,513
Operations	4,598
Total governmental	<u>\$ 15,111</u>

NOTE E - INTER-FUND TRANSFERS

General Fund made an inter-fund transfer to the School Food Service Fund in the amount of \$7,985 during the fiscal year ending June 30, 2019.

NOTE F - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2019, for the District are as follows:

<u>Payables</u>	<u>General Fund</u>
Accounts payable	\$ 5,339
Compensated absences	8,156
Accrued expenditures	3,990
Salaries payable	11,405
Total payables	<u>\$ 28,890</u>

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS

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's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. 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 (1980 PA 300 as amended).

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

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2017
Actuarial cost method	Entry age, normal
Wage inflation rate	2.75
Investment rate of return:	
Pension	6.00%-7.05%
OPEB	7.15%
Projected salary increases	2.75 - 11.55%, including wage inflation at 2.75%
Healthcare cost trend rate	7.5% Year 1 graded to 3.0% Year 12
Mortality	Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Active members: RP-2014 Male and Female Healthy Employee Annuitant Mortality Tables, scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other OPEB Assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for pension liabilities is the average of the expected remaining service lives of all employees in years which is 4.5304 for non-university employers.
- Recognition period for pension assets in years is 5.0000
- Recognition period for OPEB liabilities is the average of the expected remaining service lives of all employees in years which is 5.6018 for non-university employers.
- Recognition period for OPEB assets in years is 5.0000
- Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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.

The target asset allocation as of September 30, 2018 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7%
Private Equity Pools	18.0 %	9.2%
International Equity Pools	16.0 %	7.2%
Fixed Income Pools	10.5 %	0.5%
Real Estate and Infrastructure Pools	10.0 %	3.9%
Absolute Return Pools	15.5 %	5.2%
Short Term Investment Pools	2.0 %	0.0%
Total	100.0 %	

* Long term rate of return does not include 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment and OPEB plan investment net of pension plan and OPEB investment expense, was 11.11% and 10.75% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). A discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on these assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

**ARVON TOWNSHIP SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

PENSION PLAN

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

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, 2017 valuation will be amortized over a 21-year period for fiscal year beginning October 1, 2017 and ending September 30, 2038.

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:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member Rate</u>	<u>Employer</u>
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0%	17.89%
Pension Plus	3.0 - 6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

Required contributions to the pension plan from Arvon Township School District were \$41,436 for the year ended September 30, 2018.

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Pension Liabilities

At June 30, 2019, the District reported a liability of \$457,444 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2017. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018 and 2017 the District's proportion was .00152% and .00150%, respectively.

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

For the year ended June 30, 2019, the District recognized total pension expense of \$68,973. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 2,123	\$ 3,324
Changes of assumptions	105,944	-
Net difference between projections and actual earnings on pension plan investments	-	31,278
Changes in proportion and differences between employer contributions and proportionate share of contributions	31,627	3,681
District's contributions subsequent to the measurement date	17,845	-
Total	<u>\$ 157,539</u>	<u>\$ 38,283</u>

\$17,845 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, 2020.

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

<u>Year Ending September 30</u>	<u>Amount</u>
2019	\$ 42,492
2020	\$ 33,667
2021	\$ 18,658
2022	\$ 6,594

**ARVON TOWNSHIP SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 7.05% for the Basic and Member Investment Plan, 7.0% for the Pension Plus Plan, and 6.0% for the Pension Plus 2 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:

	1% Lower <u>(6.05%/6.0%/5.0%)</u>	Discount Rate <u>(7.05%/7.0%/6.0%)</u>	1% Higher <u>(8.05%/8.0%/7.0%)</u>
District's proportionate share of the net pension liability	\$ 600,589	\$ 457,444	\$ 338,514

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At year end the District is current on all required pension plan payments. Amounts accrued at year end were \$4,995. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

OPEB PLAN

Benefits Provided

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

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

**ARVON TOWNSHIP SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

Benefit Structure	OPEB Contribution Rates	
	Member Rate	Employer
Premium Subsidy	3.0%	6.44%
Personal Healthcare Fund	0.0%	6.13%

Required contributions to the OPEB plan from Arvon Township School District were \$9,858 for the year ended September 30, 2018.

OPEB Liabilities

At June 30, 2019, the District reported a liability of \$120,718 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018 and 2017 the District's proportion was .00152% and .00148%, respectively.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized total OPEB expense of \$6,382. 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, 2019

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ -	\$ 22,469
Changes of assumptions	12,784	-
Net difference between policies and actual earnings on OPEB plan investments	-	4,639
Changes in proportion and differences between reporting using contributions and proportionate share of contributions	2,531	351
District's contributions subsequent to the measurement date	7,739	-
Total	<u>\$ 23,054</u>	<u>\$ 27,459</u>

\$7,739 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Year Ended September 30	Amount
2019	\$ (3,048)
2020	\$ (3,048)
2021	\$ (3,048)
2022	\$ (2,132)
2023	\$ (868)

Sensitivity of the District's Proportionate Share of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 144,920	\$ 120,718	\$ 100,362

Sensitivity of the Net OPEB Liability to Healthcare Cost Trend Rate

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net pension liability	\$ 99,290	\$ 120,718	\$ 145,302

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE G - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the OPEB Plan

At year end the District is current on all required OPEB payments. Amounts accrued at year end were \$916. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

NOTE H - 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	\$	1,970
REAP		<u>15,146</u>
Total Federal Financial Assistance	\$	<u><u>17,116</u></u>

The District expended less than \$750,000 in Federal awards during the fiscal year ended June 30, 2019 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE I - 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 J - UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, Fiduciary Activities which will be effective for the Districts 2020 fiscal year. This statement establishes criteria for identifying fiduciary activities of School Districts. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

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.

On May 14, 2019 the board approved a bid in the amount of \$28,708 to construct a porch addition. Construction had not yet begun as of June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final to Actual
Revenues				
Local sources	\$ 301,032	\$ 301,032	\$ 296,485	\$ (4,547)
State sources	24,389	24,389	24,435	46
Federal sources	16,298	16,298	17,116	818
Total revenues	<u>341,719</u>	<u>341,719</u>	<u>338,036</u>	<u>(3,683)</u>
Expenditures				
Instruction	218,890	218,890	212,282	6,608
Supporting services	189,197	189,197	152,960	36,237
Community services	400	400	275	125
Total expenditures	<u>408,487</u>	<u>408,487</u>	<u>365,517</u>	<u>42,970</u>
Excess (deficiency) of revenues over expenditures	(66,768)	(66,768)	(27,481)	39,287
Other financing sources (uses)				
Operating transfers out	<u>(7,800)</u>	<u>(7,800)</u>	<u>(7,985)</u>	<u>(185)</u>
Total other financing sources (uses)	<u>(7,800)</u>	<u>(7,800)</u>	<u>(7,985)</u>	<u>(185)</u>
Net change in fund balances	<u>\$ (74,568)</u>	<u>\$ (74,568)</u>	(35,466)	<u>\$ 39,102</u>
Fund balances - Beginning of year			<u>659,908</u>	
Fund balances - End of year			<u>\$ 624,442</u>	

**ARVON TOWNSHIP SCHOOL DISTRICT
PENSION REQUIREMENTS
Year Ended June 30, 2019**

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

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

	<u>9/30/2014</u>	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>
A. District's proportion of net pension liability	0.00129	0.00122 %	0.00141 %	0.00150 %	0.00152 %
B. District's proportionate share of net pension liability	\$ 284,327	\$ 299,641	\$ 352,295	\$ 389,354	\$ 457,444
C. District's covered payroll	\$ 121,083	\$ 105,628	\$ 125,054	\$ 125,897	\$ 129,175
D. District's proportionate share of net pension liability as a percentage of its covered payroll	234.82 %	283.68 %	281.71 %	309.26 %	354.13 %
E. Plan fiduciary net position as a percentage of total pension liability	66.20 %	63.17 %	63.27 %	64.21 %	62.36 %

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Michigan Public School Employees Retirement Plan
Last Five 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>	<u>6/30/2018</u>	<u>6/30/2019</u>
A. Statutorily required contributions	\$ 22,662	\$ 21,459	\$ 23,661	\$ 23,203	\$ 23,977
B. Contributions in relation to statutorily required contributions	22,675	21,459	23,661	23,203	23,977
C. Contribution deficiency (excess)	<u>\$ (13)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 102,222	\$ 109,880	\$ 125,175	\$ 129,336	\$ 134,111
E. Contributions as a percentage of covered-employee	22.18 %	19.53 %	18.90 %	17.94 %	17.88 %

**ARVON TOWNSHIP SCHOOL DISTRICT
OPEB REQUIREMENTS
Year Ended June 30, 2019**

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

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

	<u>9/30/2017</u>	<u>9/30/2018</u>
A. District's proportion of net OPEB liability	0.00148 %	0.00152 %
B. District's proportionate share of net OPEB liability	\$ 131,757	\$ 120,718
C. District's covered payroll	\$ 125,897	\$ 129,175
D. District's proportionate share of net OPEB liability as a percentage of its covered payroll	104.65 %	93.45 %
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39 %	42.95 %

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

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

	<u>6/30/2018</u>	<u>6/30/2019</u>
A. Statutorily required contributions	\$ 9,196	\$ 10,350
B. Contributions in relation to statutorily required contributions	9,196	10,350
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 129,336	\$ 134,111
E. Contributions as a percentage of covered-employee	7.11 %	7.72 %

**ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2019**

Pension Information

Ten years of data are required in the pension related schedules. The number of years presented as of June 30, 2019 represent the number of years since the accounting standard requiring these schedules came into effect.

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2018.

NOTE B - CHANGE OF ASSUMPTIONS

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2018 annual actuarial valuation of 0.45 percent from 7.50% to 7.05% for the non-hybrid plan.

OPEB Information

Ten years of data are required in the OPEB related schedules. The number of years presented as of June 30, 2019 represent the number of years since the accounting standard requiring these schedules came into effect.

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2018.

NOTE B - CHANGE OF ASSUMPTIONS

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2018 annual actuarial valuation of 0.35 percent from 7.50% to 7.15% for the OPEB plan.

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Taxes	\$ 298,480	\$ 293,298	\$ (5,182)
Earnings on investments	1,500	1,523	23
Miscellaneous	1,052	1,664	612
Total local sources	<u>301,032</u>	<u>296,485</u>	<u>(4,547)</u>
State sources	<u>24,389</u>	<u>24,435</u>	<u>46</u>
Federal sources			
REAP	15,146	15,146	-
Title II	1,152	1,970	818
Total federal sources	<u>16,298</u>	<u>17,116</u>	<u>818</u>
Total revenues	<u>341,719</u>	<u>338,036</u>	<u>(3,683)</u>
Expenditures			
Instruction			
Basic program	200,266	192,840	7,426
Compensatory education	18,624	19,442	(818)
Total instruction	<u>218,890</u>	<u>212,282</u>	<u>6,608</u>
Supporting services			
Instructional staff			
Library	<u>5,600</u>	<u>5,567</u>	<u>33</u>
General administration			
Board of education	<u>15,050</u>	<u>14,697</u>	<u>353</u>
Business-fiscal services	14,087	16,225	(2,138)
Operations & maintenance	74,121	37,298	36,823
Pupil transportation	80,000	78,834	1,166
Technical support	339	339	-
Total supporting services	<u>189,197</u>	<u>152,960</u>	<u>36,237</u>
Community services	<u>400</u>	<u>275</u>	<u>125</u>
Total expenditures	<u>408,487</u>	<u>365,517</u>	<u>42,970</u>
Excess (deficiency) of revenues over expenditures	<u>(66,768)</u>	<u>(27,481)</u>	<u>39,287</u>
Other financing sources (uses)			
Operating transfers out	<u>(7,800)</u>	<u>(7,985)</u>	<u>(185)</u>
Net change in fund balances	<u>\$ (74,568)</u>	<u>(35,466)</u>	<u>\$ 39,102</u>
Fund balances - Beginning of year		<u>659,908</u>	
Fund balances - End of year		<u>\$ 624,442</u>	

ARVON TOWNSHIP SCHOOL DISTRICT
SCHOOL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Other food sales	\$ 700	\$ 617	\$ (83)
Expenditures			
Purchased services	8,400	7,985	415
Excess (deficiency) of revenues over expenditures	(7,700)	(7,368)	498
Other financing sources (uses)			
Operating transfers in	7,800	7,985	185
Net change in fund balances	<u>\$ 100</u>	617	<u>\$ 313</u>
Fund balances - Beginning of year		<u>1,030</u>	
Fund balances - End of year		<u>\$ 1,647</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, 2019 and the related notes to the financial statements and have issued our report thereon dated October 14, 2019.

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 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*

October 14, 2019

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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

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, 2019. 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 August 8, 2019. 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, 2019. 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 Governmental Activities financial statements were:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

- We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets:

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension and net OPEB liability:

- We evaluated the key factors and assumptions used to develop the liabilities related to the Municipal Employees' Retirement System of Michigan, which are based on actuarial valuations.

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 October 14, 2019.

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 and Schedules related to the Proportionate Share and Contributions of the District's Net Pension Liability, 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 the RSI.

We were engaged to report on combining and individual fund statements and schedules, 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.

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

October 14, 2019

**ARVON TOWNSHIP SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2019**

During our audit we became aware of an opportunity for strengthening internal controls and operating efficiencies. The following item summarizes our comment and suggestion regarding this matter.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Budget Review

The Uniform Budgeting Act requires entities to approve an operating budget prior to the beginning of the year and that all amendments to budget made throughout the year are approved. Districts shall not incur expenditures in excess of the amount appropriated. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2019, the District incurred expenditures which were in excess of the amounts appropriated as shown within the required supplemental financial information.

The District should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly. We recommend that the District review the provisions of Public Act 2 of 1968, as amended, to determine proper compliance procedures.