

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2011

DRAFT

**AUDITORS' REPORT**

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As management of the Tawas Area Schools, (the District), we offer 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, 2011.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Sinking Fund, Debt Retirement Fund, and Food Service Fund.

### FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The District realized relative stability in all governmental activities for the 2010/2011 school year. Loss in enrollment of students was fairly consistent with predictions. The cost containment strategies implemented by Administration offset the student loss and allowed for an increase in the District's year end Fund Balance. Future revenue predictions remain unreliable due to Michigan's ongoing difficulty to generate accurate K-12 revenue forecasts. The state's continued high unemployment rate and slowing economy does not promote financial confidence for the 2011/2012 school year. Our ability to reach our financial goals and to maintain an adequate fund balance will present an ongoing challenge.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$10,718,730 (net assets). Of this amount, \$2,866,137 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$974,593. This represents increases in ongoing revenues which exceeded increases in ongoing expenditures.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,538,036, an increase of \$567,427 in comparison with the prior year. Of this amount, \$2,563,579 (unassigned fund balance) is available for spending at the District's discretion.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Sinking Fund, Debt Retirement Fund, and Food Service Fund) was \$3,538,036 or 30% of the total expenditures of these operating funds.

### USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Tawas Area Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

TAWAS AREA SCHOOLS  
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2011

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the Tawas Area School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, and food services.

The government-wide financial statements can be found in the Statement of Net Assets and the Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budgets.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2011

Governmental Funds (Continued)

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found in the Statement of Fiduciary Assets and Liabilities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented in Notes to Financial Statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in the Combining Balance Sheet – Other Governmental Funds and the Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Other Governmental Funds.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School District's net assets were \$10,718,730 at June 30, 2011. Of this amount, \$2,866,137 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the School District's governmental activities.

TAWAS AREA SCHOOLS  
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 1  
NET ASSETS

	Governmental Activities	
	June 30, 2011	June 30, 2010
Current Assets	\$ 4,568,681	\$ 3,766,871
Noncurrent Assets:		
Bond Issuance Costs - Net	18,491	23,256
Capital Assets - Net	9,472,490	9,665,165
Total Assets	14,059,662	13,455,292
Current Liabilities	1,042,722	810,870
Noncurrent Liabilities	2,298,210	2,900,285
Total Liabilities	3,340,932	3,711,155
<u>Net Assets</u>		
Invested in Capital Assets – Net of Related Debt	7,399,148	7,099,386
Restricted	453,445	429,305
Unrestricted	2,866,137	2,215,446
Total Net Assets	\$ 10,718,730	\$ 9,744,137

The \$2,866,137 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example); we would have \$2,866,137 left.

TABLE 2  
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2011	Year Ended June 30, 2010
Revenue:		
Program Revenue:		
Charges for Services	\$ 314,040	\$ 320,236
Operating Grants and Contributions	2,019,947	1,629,919
Capital Grants and Contributions	0	12,216
General Revenue:		
Current Property Taxes	5,199,113	5,259,280
State School Aid – Unrestricted	4,721,682	5,253,777
Investment Earnings	3,712	6,734
Miscellaneous	8,044	1,465
Gain (Loss) on Sale of Capital Assets	0	2,155
Total Revenue	12,266,538	12,485,782

TAWAS AREA SCHOOLS  
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2011	Year Ended June 30, 2010
Functions/Program Expenses:		
Instruction	\$ 6,847,660	\$ 7,480,339
Support Services	3,494,199	3,606,983
Community Services	11,108	17,661
Athletics	250,595	231,714
Food Services	590,843	579,802
Interest on Long-Term Debt	97,540	111,968
Total Functions/Program Expenses	11,291,945	12,028,467
Change in Net Assets	974,593	457,315
Beginning Net Assets	9,744,137	9,286,822
Ending Net Assets	\$ 10,718,730	\$ 9,744,137

Governmental activities increased the District's net assets by \$974,593.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$11,291,945. However, the amount that our taxpayers ultimately financed for these activities through the School District was only \$5,199,113 because some of the cost was paid by those who benefited from the programs (\$314,040), by other governments and organizations who subsidized certain programs with grants and contributions (\$2,019,947), by unrestricted state school aid (\$4,721,682), and by miscellaneous sources (\$11,756).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The budgeted funds are the General Fund and the School Lunch Fund.

During the year ended June 30, 2011, the District amended the budgets of these governmental funds a couple of times, due to changes in funding sources.

General Fund

The general fund actual revenue was \$10,870,987. The amount is above the original budget estimates of \$10,304,546 and the final amended budget of \$10,867,975. The variance between the actual revenues, the original budget and the final budget was mostly result of originally not budgeting the Athletic Fund revenue into the General Fund, and changes in anticipated State funding, compared to the amounts originally budgeted.

The actual expenditures of the general fund were \$10,366,740, which is below the original budget estimate of \$10,694,777 and above the final amended budget of \$10,352,811. The variance between the actual expenditures, the original budget and the final budget was the result of decreases in expenditures for compensatory education and vocational education compared to the amount originally budgeted.

The General Fund had total revenues of \$10,870,987 and total expenditures of \$10,366,740 with an ending fund balance of \$3,084,591.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$11,699,111. The governmental funds had a net gain in fund balance of \$567,427. The ending fund balance for all governmental funds was \$3,538,036 which represents 30% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**

At the end of fiscal year 2011, the District had \$18,811,234 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, \$9,338,744 in depreciation has been taken over the years. We currently have a net book value of \$9,472,490. Total additions for the year were \$241,912 and were made up of new copy machines, new band uniforms, playground equipment, and site improvements to the playground and parking lot. There were no fixed asset disposals in the current year.

**Long-Term Debt**

At June 30, 2011, the District had \$2,120,000 in bonds outstanding which represent general obligation bonds of the District.

State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Notes to Financial Statements, Note 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan continues to decline, with property values expected to decrease 2.5% over the next year. The debt millage was increased beginning in the 2010/2011 fiscal year to compensate for the expected decline in property tax values. The District also passed a new sinking fund millage for seven more years at the same rate as the old millage, beginning in the 2010/2011 fiscal year. The current State of Michigan revenue estimates have declined to the point that 2010/2011 funding is uncertain. These factors were considered in preparing the Tawas Area Schools' budgets for the 2010/2011 fiscal year.

A new Governmental Accounting Standards Board standard (GASB 54) will be in effect in the 2010/2011 fiscal year, which will expand the classifications of fund balance. GASB 54 will also change the reporting of special revenue funds that are not expected to have a substantial portion of their revenue derived from restricted or committed sources. For the School District this will result in the Athletic Fund, for which the majority of the funding is made up of a transfer from the General Fund, being eliminated and the athletic activities will be reported in the General Fund.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Tawas Area Schools' finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Don Vernon  
Superintendent  
Tawas Area Schools  
245 W. M-55  
Tawas City, MI 48763  
Office Telephone (989) 984-2250



August 15, 2011

Independent Auditors' Report

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Tawas Area Schools as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2011, included in the Single Audit Reports issued under separate cover, on our consideration of Tawas Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tawas Area Schools' financial statements as a whole. The combining nonmajor funds and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor funds and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Stephenson, Grain & Co., P.C.*

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2011

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 3,426,112
Receivables:	
Accounts	21,310
Due From Other Governmental Units	1,101,607
Inventory: (Note 1)	
Supplies	8,859
Building Trades Lots	10,793
Noncurrent Assets:	
Bond Issuance Costs - Net (Note 1)	18,491
Capital Assets Not Being Depreciated (Note 3)	150,525
Capital Assets Net of Accumulated Depreciation (Note 3)	<u>9,321,965</u>
 Total Assets	 <u>14,059,662</u>
<u>Liabilities</u>	
Accounts Payable	36,775
Due to Other Units	30,006
Interest Payable	12,077
Payroll Deductions and Withholdings	181,268
Accrued Expenses	136,446
Salaries Payable	603,929
Deferred Revenue (Note 6)	42,221
Long-Term Liabilities (Note 5)	
Due within one year	638,988
Due in more than one year	<u>1,659,222</u>
 Total Liabilities	 <u>3,340,932</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	7,399,148
Restricted For:	
Food Services	74,121
Debt Retirement	26,604
Capital Projects	352,720
Unrestricted	<u>2,866,137</u>
 Total Net Assets	 <u>\$ 10,718,730</u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenue and Change in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 6,847,660	\$ 31,668	\$ 1,496,194	\$ 0	\$ (5,319,798)
Support Services	3,494,199	24,854	128,400	0	(3,340,945)
Community Services	11,108	3,562	564	0	(6,982)
Athletics	250,595	79,291	0	0	(171,304)
Food Services	590,843	174,665	394,789	0	(21,389)
Interest on Long-Term Debt	<u>97,540</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(97,540)</u>
<b>Total</b>	<b><u>\$ 11,291,945</u></b>	<b><u>\$ 314,040</u></b>	<b><u>\$ 2,019,947</u></b>	<b><u>\$ 0</u></b>	<b><u>(8,957,958)</u></b>
General Revenue:					
Property Taxes, Levied for General Purposes					4,373,637
Property Taxes, Levied for Debt Purposes					576,843
Property Taxes, Levied for Sinking Fund Purposes					248,633
State School Aid - Unrestricted					4,721,682
Investment Earnings					3,712
Miscellaneous					<u>8,044</u>
Total General Revenue					<u>9,932,551</u>
Change in net assets					974,593
Net assets - beginning					<u>9,744,137</u>
Net assets - ending					<u>\$ 10,718,730</u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
June 30, 2011

<u>ASSETS</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents (Note 2)	\$ 2,956,713	\$ 469,399	\$ 3,426,112
Receivables:			
Accounts	17,730	3,580	21,310
Due From Other Governmental Units	1,098,120	3,487	1,101,607
Inventory: (Note 1)			
Supplies	0	8,859	8,859
Building Trades Lots	<u>10,793</u>	<u>0</u>	<u>10,793</u>
 Total Assets	 <u>\$ 4,083,356</u>	 <u>\$ 485,325</u>	 <u>\$ 4,568,681</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 36,775	\$ 0	\$ 36,775
Due to Other Units	30,006	0	30,006
Payroll Deductions and Withholdings	175,486	5,782	181,268
Accrued Expenditures	129,219	7,227	136,446
Salaries Payable	585,058	18,871	603,929
Deferred Revenue (Note 6)	42,221	0	42,221
Total Liabilities	<u>998,765</u>	<u>31,880</u>	<u>1,030,645</u>
 <u>Fund Equity</u>			
Fund Balances:			
Nonspendable:			
Inventory	10,793	8,859	19,652
Restricted For:			
Debt Retirement	0	16,120	16,120
Capital Projects	0	52,109	52,109
Committed To:			
2011/2012 Budgeted Expenditures	510,219	311,095	821,314
Assigned To:			
Food Service	0	65,262	65,262
Unassigned	<u>2,563,579</u>	<u>0</u>	<u>2,563,579</u>
Total Fund Equity	<u>3,084,591</u>	<u>453,445</u>	<u>3,538,036</u>
 Total Liabilities and Fund Equity	 <u>\$ 4,083,356</u>	 <u>\$ 485,325</u>	 <u>\$ 4,568,681</u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2011

Total governmental fund balances		\$	3,538,036
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:			
Capital Asset Cost		\$	18,811,234
Capital Asset Accumulated Depreciation			<u>(9,338,744)</u>
			9,472,490
Accrued interest on long-term liabilities			(12,077)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (net of deferred amounts on refunding)			(2,073,342)
Compensated Absences Payable			(73,183)
Early Retirement Incentive Payable			(75,000)
Incurred But Not Reported Benefit Claims			<u>(58,194)</u>
Total long-term liabilities			<u>(2,279,719)</u>
Total net assets - governmental activities		\$	<u><u>10,718,730</u></u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>			
Local Sources	\$ 4,522,197	\$ 1,005,534	\$ 5,527,731
State Sources	5,136,613	31,527	5,168,140
Federal Sources	1,147,332	358,490	1,505,822
Interdistrict Sources	<u>64,845</u>	<u>0</u>	<u>64,845</u>
Total revenue	<u>10,870,987</u>	<u>1,395,551</u>	<u>12,266,538</u>
<u>Expenditures</u>			
Current:			
Instruction	6,573,741	0	6,573,741
Support Services	3,306,883	0	3,306,883
Community Services	10,484	0	10,484
Food Services	0	557,665	557,665
Athletics	236,523	0	236,523
Capital Outlay	239,109	196,806	435,915
Debt Service:			
Principal Retirement	0	490,000	490,000
Interest and Fees on Long-Term Debt	<u>0</u>	<u>87,900</u>	<u>87,900</u>
Total expenditures	<u>10,366,740</u>	<u>1,332,371</u>	<u>11,699,111</u>
Excess of revenue over (under) expenditures	<u>504,247</u>	<u>63,180</u>	<u>567,427</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	38,500	0	38,500
Operating Transfers Out	<u>0</u>	<u>(38,500)</u>	<u>(38,500)</u>
Total other financing sources (uses)	<u>38,500</u>	<u>(38,500)</u>	<u>0</u>
Excess of revenue and other sources over expenditures and other uses	542,747	24,680	567,427
Fund balances - beginning of year (restated)	<u>2,541,844</u>	<u>428,765</u>	<u>2,970,609</u>
Fund balances - end of year	<u>\$ 3,084,591</u>	<u>\$ 453,445</u>	<u>\$ 3,538,036</u>

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011

Total net change in fund balances - governmental funds	\$	567,427
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Current year depreciation expense	\$ (434,587)	
Capital outlays reported in the governmental funds	<u>241,912</u>	(192,675)
<p>Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.</p>		
Bonds Payable		490,000
<p>Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>		
Amortization of Deferred Bond Costs and Bond Premiums (Net)		(12,171)
<p>Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effect of the treatment of these activities are as follows:</p>		
Interest	2,531	
Compensated Absences	34,606	
Early Retirement Incentives	90,000	
Incurred But Not Reported Benefit Claims	<u>(5,125)</u>	
		<u>122,012</u>
Change in net assets of governmental activities	\$	<u><u>974,593</u></u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2011

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ <u>109,859</u>
<u>LIABILITIES</u>	
Due to Student Groups	\$ <u>109,859</u>

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



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Area Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Tawas Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Tawas Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's major governmental fund:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital project funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

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.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2011, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements is stated at cost and expensed when used.

Inventory in governmental funds consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure in the governmental fund types when purchased.

H. Inventory - Building Trades Lots

Inventory represents the cost of property purchased for future building sites.

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2011.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

P. Property Taxes

The School District levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

Q. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance 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 School District. For the year ended June 30, 2011, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2010.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Foundation Revenue (Continued)

The state portion of the foundation allowance 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 allowance is funded primarily by non-prequalified and commercial property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2010 - August, 2011. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

R. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

S. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2011.

U. Economic Dependency

The School District received approximately 42% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

V. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

W. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Budgetary Policies and Data (Continued)

Tawas Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

X. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents	\$ 3,426,112	\$ 109,859	\$ 3,535,971

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking Accounts)	\$ 371,957
Investments in Pooled Funds	3,163,314
Petty Cash and Cash on Hand	700
Total	\$ 3,535,971

As of June 30, 2011, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ 3,163,314	Daily

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2011, the School District's investment in the Cadre Consulting managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2011, \$179,859 of the School District's bank balance of \$429,859 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District is not authorized to invest in investments which have this type of risk.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 01, 2010	Additions	Deletions	Balance June 30, 2011
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>150,525</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>150,525</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	13,802,440	5,710	0	13,808,150
Site Improvements	2,272,915	176,439	0	2,449,354
Furniture, Fixtures and Equipment	841,395	59,763	0	901,158
Vehicles and Buses	<u>1,502,047</u>	<u>0</u>	<u>0</u>	<u>1,502,047</u>
Subtotal	<u>18,418,797</u>	<u>241,912</u>	<u>0</u>	<u>18,660,709</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(5,326,142)	(263,401)	0	(5,589,543)
Site Improvements	(1,824,464)	(60,722)	0	(1,885,186)
Furniture, Fixtures and Equipment	(673,767)	(27,515)	0	(701,282)
Vehicles and Buses	<u>(1,079,784)</u>	<u>(82,949)</u>	<u>0</u>	<u>(1,162,733)</u>
Subtotal	<u>(8,904,157)</u>	<u>(434,587)</u>	<u>0</u>	<u>(9,338,744)</u>
Capital Assets Being Depreciated	<u>9,514,640</u>	<u>(192,675)</u>	<u>0</u>	<u>9,321,965</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ <u>9,665,165</u>	\$ <u>(192,675)</u>	\$ <u>0</u>	\$ <u>9,472,490</u>

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

<u>Governmental Activities</u>	
Instruction	\$ 265,838
Support Services	135,651
Community Services	431
Athletics	9,729
Food Services	<u>22,938</u>
	<u>\$ 434,587</u>

NOTE 4 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2011

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 5 - LONG-TERM LIABILITIES

A. Bonds Payable

	Date of Contract	Principal Due	Interest	Total Obligation
2003 Refunding Bonds:				
The bonds dated March 27, 2003 which bear interest from 3.25% to 3.6% are due serially each May 1 through 2015				
	2003	\$ <u>2,120,000</u>	\$ <u>187,620</u>	\$ <u>2,307,620</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2011 are as follows:

	Government Activities		
	Principal	Interest	Total
2012	\$ 500,000	\$ 72,460	\$ 572,460
2013	520,000	56,210	576,210
2014	540,000	38,790	578,790
2015	560,000	20,160	580,160
Total	\$ 2,120,000	\$ 187,620	\$ 2,307,620

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for Tawas Area Schools was \$73,183 at June 30, 2011, of which \$13,200 was the estimated current portion.

C. Early Retirement Incentive Payable

The School District has three retirement incentive programs, Option A was offered to all teachers actively employed by the School District and not on leave, who have thirty (30) or more years of retirement credit, or are in the process of purchasing or willing to purchase service credit to get them to (30) years of credit by June 30, 2011. Option B was offered to all teachers who are actively employed with the School District and not on leave, who are fifty-five (55) years of age and meet the requirements of the State of Michigan Public School Retirement Law and are able to receive State of Michigan retirement benefits at a reduced amount. The third plan is a voluntary severance plan that was offered to all teachers actively employed by the School District and not on layoff, who had completed (as of the conclusion of the final teacher obligation day of the 2009-2010 school year) twenty five (25) years in education. The amount of retirement incentive liability for the School District at June 30, 2011 was \$75,000, all of which was the estimated current portion.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

D. Health Insurance

The School District self funds the wrap portion of the medical insurance along with self funding the full amount of dental and vision insurance. An independent administrator (MEBS, Inc.) is hired to process the daily claims. Payments are made each week to the independent administrator based on actual claims. The School District pays monthly administration fees to the independent administrator for processing claims. The School District has a stop loss of \$1,000,000. The liability at the end of the year is based on claims already incurred and reported and on estimates of incurred but not reported claims as provided by MEBS, Inc.

The changes in the Health Insurance claims liability for the year ended June 30, 2010 are as follows:

	6/30/2011
Claims Liability, Beginning of Year	\$ 53,069
Claims and Damages Incurred	327,104
Claims Payments	(321,979)
Claims Liability, End of Year	\$ 58,194

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2011:

	Balance July 1, 2010	Increase	Decrease	Balance June 30, 2011	Amount Due in One Year
<u>Governmental Activities</u>					
Bonds	\$ 2,610,000	\$ 0	\$ (490,000)	\$ 2,120,000	\$ 500,000
Deferred Amounts for Issuance					
Premium	(35,573)	0	7,406	(28,167)	(7,406)
Compensated Absences	107,789	0 *	(34,606)	73,183	13,200
Early Retirement Incentives	165,000	0 *	(90,000)	75,000	75,000
Incurred but not Reported					
Benefit Claims	53,069	5,125 *	0	58,194	58,194
Total Long-Term Liabilities	\$ 2,900,285	\$ 5,125	\$ (607,200)	\$ 2,298,210	\$ 638,988

\*Represents net of additions and retirements for the year.

The interest expenses on long-term obligations for the year were \$97,540.

Compensated absences for the governmental funds are generally liquidated by the General and Food Service funds.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 6 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
At Risk	\$ 42,221

NOTE 7 - OPERATING TRANSFERS

During the year ended June 30, 2011, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 38,500	\$ 0
Non-major Governmental Funds	0	38,500
	\$ 38,500	\$ 38,500

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget of the School District for the general fund was adopted at the functional level, and the approved budget for the special revenue funds was adopted at the activity level.

During the year ended June 30, 2011, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Instruction	\$ 6,572,856	\$ 6,573,741	\$ 885
General/Support Services	\$ 3,293,377	\$ 3,306,883	\$ 13,506
General/Community Services	\$ 10,477	\$ 10,484	\$ 7
General/Athletics	\$ 235,635	\$ 236,523	\$ 888

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 9 - RETIREMENT PLANS

Defined Benefit Plan

The Tawas Area Schools contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and; employees hired between January 1, 1990 and June 30, 2008 will contribute 4.3% of all wages over \$15,000 and employees hired after June 30, 2008 will contribute 6.4% of wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2010, employer contributions were 16.94% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2010, the contribution rate increased to 20.66% of covered compensation for employees hired prior to July 1, 2010 and 19.16% for employees hired after July 1, 2010. The contribution requirements of plan members and Tawas Area Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2011, 2010 and 2009 were \$1,140,197, \$1,078,806 and \$1,080,426, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The School District offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the School District for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the School District's financial statements.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 9 - RETIREMENT PLANS (CONTINUED)

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$38,627 for the year ended June 30, 2011.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$154,744 for the year ended June 30, 2011. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 10 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$0 as of June 30, 2011.

NOTE 11 - SINKING FUND

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.



TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011

NOTE 14 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2011, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

The District was named as a defendant in a lawsuit. The outcome of this lawsuit is not presently determinable. In the opinion of the School District's attorney, it is too premature to determine whether or not the resolution of these matters will have a material adverse effect on the financial condition of the School District.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

The June 30, 2010 financial statements have been restated to account for \$540 of fund balance that was previously recorded in a separate Athletic Fund, due to the implementation of Governmental Accounting Standards Board Statement number 54 (GASB 54). GASB 54 requires that restricted or committed revenue sources be expected to continue to comprise a substantial portion of inflows of the fund, in order for a special revenue fund to be established. The Athletic Fund has historically been primarily maintained through General Fund appropriations, and therefore, is no longer able to exist as a special revenue fund. This restatement combines the June 30, 2010 Athletic Fund fund balance of \$540 with the General Fund.

	General Fund		Athletic Fund
Fund Balance - Beginning	\$ 2,541,304	\$	540
Adjustment to Combine Athletic Fund into General Fund	540		(540)
Fund Balance - Beginning (Restated)	\$ 2,541,844	\$	0

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 4,400,594	\$ 4,522,671	\$ 4,522,197	\$ (474)
State Sources	5,027,204	5,134,797	5,136,613	1,816
Federal Sources	844,398	1,145,612	1,147,332	1,720
Interdistrict Sources	<u>32,350</u>	<u>64,895</u>	<u>64,845</u>	<u>(50)</u>
Total revenue	<u>10,304,546</u>	<u>10,867,975</u>	<u>10,870,987</u>	<u>3,012</u>
<u>Expenditures</u>				
Current:				
Instruction	7,050,452	6,572,856	6,573,741	(885)
Support Services	3,342,090	3,293,377	3,306,883	(13,506)
Community Services	9,468	10,477	10,484	(7)
Athletics	171,267	235,635	236,523	(888)
Capital Outlay	<u>121,500</u>	<u>240,466</u>	<u>239,109</u>	<u>1,357</u>
Total expenditures	<u>10,694,777</u>	<u>10,352,811</u>	<u>10,366,740</u>	<u>(13,929)</u>
Excess of revenue over (under) expenditures	<u>(390,231)</u>	<u>515,164</u>	<u>504,247</u>	<u>(10,917)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	2,500	0	0	0
Operating Transfers In	56,400	38,500	38,500	0
Operating Transfers Out	<u>0</u>	<u>(1,472)</u>	<u>0</u>	<u>1,472</u>
Total other financing sources (uses)	<u>58,900</u>	<u>37,028</u>	<u>38,500</u>	<u>1,472</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(331,331)</u>	<u>552,192</u>	<u>542,747</u>	<u>(9,445)</u>
Fund balances - beginning of year (restated)	<u>2,541,844</u>	<u>2,541,844</u>	<u>2,541,844</u>	<u>0</u>
Fund balances - end of year	<u>\$ 2,210,513</u>	<u>\$ 3,094,036</u>	<u>\$ 3,084,591</u>	<u>\$ (9,445)</u>

OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2011

	<u>Special Revenue Funds</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>		<u>Sinking Fund</u>	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 90,075	\$ 26,604	\$ 352,720	\$ 469,399
Receivables:				
Accounts	3,580	0	0	3,580
Due From Other Governmental Units	3,487	0	0	3,487
Inventory:				
Supplies	<u>8,859</u>	<u>0</u>	<u>0</u>	<u>8,859</u>
Total Assets	<u>\$ 106,001</u>	<u>\$ 26,604</u>	<u>\$ 352,720</u>	<u>\$ 485,325</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Payroll Deductions and Withholdings	\$ 5,782	\$ 0	\$ 0	\$ 5,782
Accrued Expenditures	7,227	0	0	7,227
Salaries Payable	<u>18,871</u>	<u>0</u>	<u>0</u>	<u>18,871</u>
Total Liabilities	<u>31,880</u>	<u>0</u>	<u>0</u>	<u>31,880</u>
<u>Fund Equity</u>				
<u>Fund Balances:</u>				
<u>Nonspendable:</u>				
Inventory	8,859	0	0	8,859
<u>Restricted For:</u>				
Debt Retirement	0	16,120	0	16,120
Capital Projects	0	0	52,109	52,109
<u>Committed To:</u>				
2011/2012 Budgeted Expenditures	0	10,484	300,611	311,095
<u>Assigned To:</u>				
Food Service	<u>65,262</u>	<u>0</u>	<u>0</u>	<u>65,262</u>
Total Fund Equity	<u>74,121</u>	<u>26,604</u>	<u>352,720</u>	<u>453,445</u>
Total Liabilities and Fund Equity	<u>\$ 106,001</u>	<u>\$ 26,604</u>	<u>\$ 352,720</u>	<u>\$ 485,325</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2011

	Special Revenue Funds	Debt Retirement Fund	Capital Projects Fund	Total Other Governmental Funds
	Lunch Fund		Sinking Fund	
<u>Revenue</u>				
Local Sources	\$ 179,516	\$ 577,075	\$ 248,943	\$ 1,005,534
State Sources	31,527	0	0	31,527
Federal Sources	358,490	0	0	358,490
Total revenue	569,533	577,075	248,943	1,395,551
<u>Expenditures</u>				
Current:				
Food Services	557,665	0	0	557,665
Capital Outlay	0	0	196,806	196,806
Debt Service:				
Principal Retirement	0	490,000	0	490,000
Interest and Fees on Long-Term Debt	0	87,900	0	87,900
Total expenditures	557,665	577,900	196,806	1,332,371
Excess of revenue over (under) expenditures	11,868	(825)	52,137	63,180
<u>Other Financing Uses</u>				
Operating Transfers Out	(38,500)	0	0	(38,500)
Excess of revenue over (under) expenditures and other uses	(26,632)	(825)	52,137	24,680
Fund balances - beginning of year	100,753	27,429	300,583	428,765
Fund balances - end of year	\$ 74,121	\$ 26,604	\$ 352,720	\$ 453,445

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 4,374,769	\$ 4,373,637	\$ 4,442,115
Tuition	3,538	3,562	2,622
Transportation Fees	22,636	22,904	7,043
Gate Receipts	49,737	49,736	47,278
Interest on Investments	2,990	3,091	5,506
Rents	3,741	3,740	0
Donations	0	0	12,216
Medicaid Fee for Service	31,668	31,668	0
Miscellaneous Local Sources	33,592	33,859	46,854
	<u>4,522,671</u>	<u>4,522,197</u>	<u>4,563,634</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,606,659	4,608,475	4,877,545
Special Education	239,312	239,312	305,970
At Risk	244,626	244,626	282,011
Preschool Program/Early Childhood Education	44,200	44,200	52,085
	<u>5,134,797</u>	<u>5,136,613</u>	<u>5,517,611</u>
<u>Federal Sources</u>			
ARRA Budget Stabilization	160,352	160,352	402,363
ECIA Title I	184,306	184,161	391,916
ARRA Title I	170,387	170,387	25,390
ECIA Title II- Improving Teacher Quality	92,855	92,855	92,313
Title II Part D - Education Technology	564	564	6,945
ECIA Title VI	34,600	34,600	0
Medicaid Outreach	0	735	9,174
Schools and Roads Grant Funds	7,614	8,744	8,912
ARRA Special Education	190,000	190,000	0
Education Jobs	304,934	304,934	0
	<u>1,145,612</u>	<u>1,147,332</u>	<u>937,013</u>
<u>Interdistrict Sources</u>			
Speech and Language	46,096	46,096	32,349
Vocational Education	16,799	16,799	19,083
Services Provided to Other Public Schools	2,000	1,950	0
	<u>64,895</u>	<u>64,845</u>	<u>51,432</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	0	0	2,155
Operating Transfers In	38,500	38,500	33,000
	<u>38,500</u>	<u>38,500</u>	<u>35,155</u>
Total Revenue and Other Financing Sources	<u>\$ 10,906,475</u>	<u>\$ 10,909,487</u>	<u>\$ 11,104,845</u>



TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,027,056	\$ 1,027,056	\$ 1,041,155
Employee Benefits	588,714	588,713	528,934
Purchased Services	11,532	11,036	9,965
Supplies, Materials and Other	<u>31,183</u>	<u>31,005</u>	<u>42,177</u>
	<u>1,658,485</u>	<u>1,657,810</u>	<u>1,622,231</u>
Junior High School			
Salaries	627,768	627,768	680,527
Employee Benefits	358,581	358,580	343,910
Purchased Services	5,655	5,482	7,016
Supplies, Materials and Other	<u>8,697</u>	<u>8,395</u>	<u>31,072</u>
	<u>1,000,701</u>	<u>1,000,225</u>	<u>1,062,525</u>
High School			
Salaries	1,362,645	1,362,677	1,368,800
Employee Benefits	722,976	722,986	700,791
Purchased Services	44,289	45,856	70,403
Supplies, Materials and Other	<u>60,765</u>	<u>60,558</u>	<u>23,781</u>
	<u>2,190,675</u>	<u>2,192,077</u>	<u>2,163,775</u>
Preschool			
Salaries	20,136	20,134	33,016
Employee Benefits	11,939	11,939	15,542
Purchased Services	527	527	0
Supplies, Materials and Other	<u>3,710</u>	<u>3,714</u>	<u>1,332</u>
	<u>36,312</u>	<u>36,314</u>	<u>49,890</u>
<b>Total Basic Programs</b>	<u>4,886,173</u>	<u>4,886,426</u>	<u>4,898,421</u>
Added Needs:			
Special Education			
Salaries	487,635	487,680	568,140
Employee Benefits	270,226	270,220	292,313
Purchased Services	54,485	55,741	47,776
Supplies, Materials and Other	<u>10,750</u>	<u>10,746</u>	<u>1,645</u>
	<u>823,096</u>	<u>824,387</u>	<u>909,874</u>
Compensatory Education			
Salaries	334,596	334,596	445,306
Employee Benefits	172,214	172,206	196,208
Purchased Services	913	515	523
Supplies, Materials and Other	<u>8,938</u>	<u>8,688</u>	<u>19,225</u>
	<u>516,661</u>	<u>516,005</u>	<u>661,262</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 108,065	\$ 108,065	\$ 125,048
Employee Benefits	53,727	53,725	54,407
Purchased Services	184,493	184,493	291,360
Supplies, Materials and Other	641	640	5,124
	<u>346,926</u>	<u>346,923</u>	<u>475,939</u>
Total Added Needs	<u>1,686,683</u>	<u>1,687,315</u>	<u>2,047,075</u>
Total Instruction	<u>6,572,856</u>	<u>6,573,741</u>	<u>6,945,496</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	93,204	93,519	89,909
Employee Benefits	45,052	45,142	41,383
Purchased Services	0	0	140
Supplies, Materials and Other	130	129	285
	<u>138,386</u>	<u>138,790</u>	<u>131,717</u>
Health Services			
Purchased Services	<u>9,500</u>	<u>7,094</u>	<u>8,527</u>
Psychological Services			
Purchased Services	<u>4,000</u>	<u>3,555</u>	<u>8,295</u>
Speech			
Salaries	96,631	96,631	91,600
Employee Benefits	58,976	58,970	53,478
Purchased Services	358	358	342
Supplies, Materials and Other	766	765	255
	<u>156,731</u>	<u>156,724</u>	<u>145,675</u>
Social Work			
Salaries	113,727	114,025	105,918
Employee Benefits	66,453	66,532	57,902
Purchased Services	592	591	390
Supplies, Materials and Other	290	290	993
	<u>181,062</u>	<u>181,438</u>	<u>165,203</u>
Total Pupil Services	<u>489,679</u>	<u>487,601</u>	<u>459,417</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff:			
Instructional Improvement			
Salaries	\$ 0	\$ 0	\$ 1,848
Employee Benefits	0	0	832
Purchased Services	<u>2,194</u>	<u>2,592</u>	<u>5,757</u>
	<u>2,194</u>	<u>2,592</u>	<u>8,437</u>
Library Services			
Salaries	26,224	26,224	31,133
Employee Benefits	12,717	12,714	12,323
Supplies, Materials and Other	<u>10,099</u>	<u>10,095</u>	<u>9,057</u>
	<u>49,040</u>	<u>49,033</u>	<u>52,513</u>
Director of Instruction			
Purchased Services	133	132	406
Supplies, Materials and Other	<u>6,000</u>	<u>5,343</u>	<u>4,595</u>
	<u>6,133</u>	<u>5,475</u>	<u>5,001</u>
Total Instructional Staff	<u>57,367</u>	<u>57,100</u>	<u>65,951</u>
General Administration:			
Board of Education			
Salaries	7,000	6,960	7,440
Purchased Services	<u>58,219</u>	<u>63,991</u>	<u>61,563</u>
	<u>65,219</u>	<u>70,951</u>	<u>69,003</u>
Executive Administration			
Salaries	137,192	137,192	169,221
Employee Benefits	73,182	73,192	89,907
Purchased Services	20,642	23,068	23,506
Supplies, Materials and Other	<u>17,236</u>	<u>17,307</u>	<u>16,210</u>
	<u>248,252</u>	<u>250,759</u>	<u>298,844</u>
Total General Administration	<u>313,471</u>	<u>321,710</u>	<u>367,847</u>
School Administration:			
Office of the Principal			
Salaries	328,134	328,133	422,444
Employee Benefits	192,060	192,057	253,506
Purchased Services	28,127	27,446	0
Supplies, Materials and Other	<u>17,842</u>	<u>17,929</u>	<u>20,772</u>
	<u>566,163</u>	<u>565,565</u>	<u>696,722</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
<u>Support Services (Continued)</u>			
Business:			
Fiscal Services			
Salaries	\$ 103,484	\$ 103,484	\$ 102,106
Employee Benefits	58,829	63,238	70,779
Purchased Services	28,143	28,143	28,060
Supplies, Materials and Other	31,908	31,908	36,456
	222,364	226,773	237,401
Operations and Maintenance:			
Salaries	289,952	289,841	310,207
Employee Benefits	167,020	166,985	177,746
Purchased Services	404,040	398,459	386,144
Supplies, Materials and Other	19,266	19,265	25,328
	880,278	874,550	899,425
Transportation:			
Salaries	278,958	279,288	274,848
Employee Benefits	125,448	125,481	102,522
Purchased Services	42,769	44,682	45,425
Supplies, Materials and Other	152,183	159,426	117,448
	599,358	608,877	540,243
Central Services:			
Salaries	29,716	29,716	0
Employee Benefits	15,861	15,850	0
	45,577	45,566	0
Technology:			
Salaries	79,787	79,805	75,496
Employee Benefits	39,030	39,034	44,018
Purchased Services	15	14	0
Supplies, Materials and Other	288	288	7,608
	119,120	119,141	127,122
Total Support Services	3,293,377	3,306,883	3,394,128
<u>Community Services</u>			
Other Community Services:			
Salaries	5,319	5,319	10,929
Employee Benefits	3,757	3,764	4,905
Purchased Services	577	577	577
Supplies, Materials and Other	824	824	345
	10,477	10,484	16,756

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Athletics</u>			
Salaries	\$ 123,969	\$ 123,969	\$ 134,396
Employee Benefits	42,630	42,629	39,296
Purchased Services	59,136	58,454	32,820
Other Expenditures	<u>9,900</u>	<u>11,471</u>	<u>13,320</u>
Total Athletics	<u>235,635</u>	<u>236,523</u>	<u>219,832</u>
<u>Capital Outlay</u>			
Instruction	115,591	115,588	22,579
Support Services	111,064	109,710	228,094
Athletics	<u>13,811</u>	<u>13,811</u>	<u>23,581</u>
Total Capital Outlay	<u>240,466</u>	<u>239,109</u>	<u>274,254</u>
<u>Operating Transfers Out</u>			
Athletic Fund	<u>1,472</u>	<u>0</u>	<u>0</u>
Total Expenditures and Transfers	<u>\$ 10,354,283</u>	<u>\$ 10,366,740</u>	<u>\$ 10,850,466</u>

DRAFT

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2011

DRAFT

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August 15, 2011

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

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2011, which collectively comprise Tawas Area Schools' basic financial statements and have issued our report thereon dated August 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs 11-01 to be a material weakness



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tawas Area Schools' 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*.

We noted certain other matters that we reported to management of Tawas Area Schools in a separate letter dated August 15, 2011.

Tawas Area Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tawas Area Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grain & Co., P.C.*

August 15, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

Compliance

We have audited Tawas Area Schools' compliance with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements to each of its major federal programs is the responsibility of Tawas Area Schools' management. Our responsibility is to express an opinion on Tawas Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified occurred. An audit includes examining, on a test basis, evidence about Tawas Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Tawas Area Schools' compliance with those requirements.

In our opinion, Tawas Area Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal for the year ended June 30, 2011. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-02 and 11-03.

Internal Control Over Compliance

Management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Tawas Area Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated August 15, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Tawas Area Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tawas Area Schools' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2011

Findings - Financial Statements Audit

2010-1                    Lack of Segregation of Duties

Tawas Area Schools does not have a policy in place requiring Electronic Fund Transactions (EFT) to be reviewed by someone who is not reconciling the bank accounts.

Current Status:        This situation has been corrected. The payroll clerk now reviews all EFT's each month.

2010-2                    Lack of Support for Activity Fund Deposits

Tawas Area Schools does not have policies or procedures in place to ensure that the deposits relating to activity funds are reasonable and complete.

Current Status:        Progress has been made. Management has implemented various procedures to help ensure reasonableness and completeness of all activity fund deposits. This is not considered a finding in the current year.

2010-3                    Competitive Bidding for Sinking Fund Expenditures

Tawas Area Schools did not comply with the open and competitive bidding requirements of MCL 380.1267 for their Sinking Fund activities.

Current Status:        This situation has been corrected. All new Sinking Fund projects were properly bid out as required by MCL 380.1267.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2010.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Tawas Area Schools.
- (2) One material weakness in internal control relating to the audit of the financial statements is reported in the 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*.
- (3) No instances of noncompliance material to the financial statements of Tawas Area Schools, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No material weaknesses or significant deficiencies relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unqualified opinion.
- (6) Two audit findings relative to the major federal award programs for Tawas Area Schools are reported in this schedule.
- (7) The programs tested as major programs included: Child Nutrition Cluster, CFDA #10.553 and #10.555, Title I Cluster, CFDA #84.010 and #84.389, and Education Jobs #84.410A.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Tawas Area Schools was determined to be a low-risk auditee.

Findings – Financial Statements Audit

11-01 Financial Statement Preparation

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

**Criteria:** Accounting principles require personnel of Tawas Area Schools to have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011

Findings - Financial Statements Audit (Continued)

11-01 Financial Statement Preparation (Continued)

**Condition:** Tawas Area Schools' personnel prepare various financial information throughout the year to assess operations and the financial condition of the District. However, prior to the closing of the year end multiple journal entries, material to the financial statements, were proposed by our firm. Also, the District relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

**Questioned Costs:** None.

**Context:** Tawas Area Schools has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Effect:** As a result, the District is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the District would not be in a position to detect the errors or omissions.

**Views of responsible officials and planned corrective action:** The District understands the risk of having the auditors prepare the financial statements and have determined to accept this risk as they feel the benefit outweighs the risk itself. However, the District mitigates this risk by striving to not have any adjusting journal entries proposed by the auditor at year end and by using the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the “Blue Book”), to assist with the disclosures required for the financial statements.

Findings and Questioned Costs - Major Federal Award Programs Audit

11-02 Title I Cluster – Allowable Costs/Cost Principles

The Office of Management and Budget Circular A-87 requires that expenditures charged to the Title I Cluster are expenditures that benefit Title I students and enhance their learning environment. All expenditures must also be part of the District's approved consolidated application of planned expenditures. All other expenditures, such as General Education, are not allowable expenditures for the Title I Cluster.

**Criteria:** The Allowable Costs/Cost Principle requires that only expenditures that are for the benefit of the Title I students and those expenditures approved in the consolidated application be charged to the Title I Cluster grants.

**Condition:** During the Single Audit testing, we noted two items charged to the Title I Cluster (both to the Title I grant – CFDA #84.010) that were not allowable for Title I reimbursement. One was for general education supplies and the other was not included in the approved consolidated application. Both were initially drawn down, but after the issues were brought to management's attention, the District reduced the final draw down by those unallowable expenditures.

**Questioned Costs:** \$0

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2011

Findings and Questioned Costs – Major Federal Award Programs Audit

11-02 Title I Cluster – Allowable Costs/Cost Principles (Continued)

**Context:** Tawas Area Schools has individuals on staff to review all reimbursement requests; however, these specific individuals did not realize that the items being included for reimbursement were not allowed.

**Cause/Effect:** The Title I Director did not realize that one of the items was unallowable because it was not included in the approved consolidated application and the other item was mistakenly charged to Title I as they were general education items purchased by a Title I teacher. As a result, the District has reduced its final draw down to subtract the amounts previously claimed for reimbursement in error.

**Views of responsible officials and planned corrective action:** The Title I Director understands the issue and will implement procedures immediately to more closely review all expenditures being requested for federal reimbursement to ensure that they are not only allowable but that they are also included in the approved consolidated application.

11-03 Title I Cluster – Parental Involvement

The Office of Management and Budget Circular A-87 requires that when there are over \$500,000 in Title I allocations for the year, 1% of the allocation has to be set aside for Parental Involvement. Of the amount set aside, 95% of that amount has to be distributed.

**Criteria:** Special Tests and Provisions require that when a District has a Title I Cluster allocation greater than \$500,000, that 1% be reserved and for parental involvement activities, and that 95% of that 1% be spent.

**Condition:** The District did not have enough parental involvement expenditures to cover the 95% payout of the 1% of total allocation requirement for allocations over \$500,000. The 2010 allocation that was fully expended in the current year was \$573,798. 1% of that allocation is \$5,738, meaning that \$5,451 (95% of the 1% allocation) was required to be spent on parental involvement. The District only spent \$1,099 on parental involvement in 2010 and 2011 combined, and therefore underspent their parental involvement dollars by \$4,352.

**Questioned Costs:** \$4,352

**Context:** The Title I Director is aware of the parental involvement requirements; however, was unable to find ways to spend the additional \$4,352 required while staying within the approved consolidated application.

**Cause/Effect:** As a result, the District understands that the Michigan Department of Education could take back the underspent parental involvement dollars of \$4,352.

**Views of responsible officials and planned corrective action:** The Title I Director understands the issue and will work on brainstorming ways to spend parental involvement dollars in the future. The Title I Director did note that he did not believe that the District would have any more allocations in the Title I Cluster greater than \$500,000 where the parental involvement requirements would be required.

TAWAS AREA SCHOOLS

Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

Federal Grantor or Pass Through Grantor Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2010	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2011
<u>U.S. Department of Agriculture</u>							
Passed through the Michigan Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
Food Distribution							
55030 Entitlement Commodities	10.555	\$ 33,670	\$ 0	\$ 0	\$ 33,670	\$ 33,670	\$ 0
55030 Bonus Commodities		3,772	0	0	3,772	3,772	0
<i>Non-Cash Assistance Subtotal</i>		<u>37,442</u>	<u>0</u>	<u>0</u>	<u>37,442</u>	<u>37,442</u>	<u>0</u>
Cash Assistance:							
School Breakfast Program							
101970 2009-2010	10.553	84,972	78,079	0	6,893	6,893	0
111970 2010-2011		71,564	0	0	71,564	71,564	0
		<u>156,536</u>	<u>78,079</u>	<u>0</u>	<u>78,457</u>	<u>78,457</u>	<u>0</u>
National School Lunch Program							
Section 4 - All Lunches							
101950 2009-2010	10.555	37,439	33,758	0	3,681	3,681	0
111950 2010-2011		32,525	0	0	32,525	32,525	0
		<u>69,964</u>	<u>33,758</u>	<u>0</u>	<u>36,206</u>	<u>36,206</u>	<u>0</u>
Section 11 - Free and Reduced							
101960 2009-2010	10.555	221,827	200,491	0	21,336	21,336	0
111960 2010-2011		185,049	0	0	185,049	185,049	0
		<u>406,876</u>	<u>200,491</u>	<u>0</u>	<u>206,385</u>	<u>206,385</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>		<u>633,376</u>	<u>312,328</u>	<u>0</u>	<u>321,048</u>	<u>321,048</u>	<u>0</u>
Total Child Nutrition Cluster		<u>670,818</u>	<u>312,328</u>	<u>0</u>	<u>358,490</u>	<u>358,490</u>	<u>0</u>
Passed through Iosco County:							
Schools and Roads Grants Funds							
	10.665	8,744	0	0	8,744	8,744	0
Total U.S. Department of Agriculture		<u>679,562</u>	<u>312,328</u>	<u>0</u>	<u>367,234</u>	<u>367,234</u>	<u>0</u>

The accompanying notes are an integral part of this schedule.



TAWAS AREA SCHOOLS  
losco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2011

Federal Grantor or Pass Through Grantor Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2010	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2011
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education:							
Title I Cluster							
Title I - Grants to Local Educational Agencies							
101530 0910 2009-2010	84.010	\$ 378,021	\$ 372,029	\$ 33,034	\$ 5,992	\$ 39,026	\$ 0
111530 1011 2010-2011		380,127	0	0	178,169	148,181	29,988
		<u>758,148</u>	<u>372,029</u>	<u>33,034</u>	<u>184,161</u>	<u>187,207</u>	<u>29,988</u>
ARRA Title I:							
101535 Part A Imp Basic Pro 0910 2009-2010	84.389	195,777	25,390	64	170,387	170,451	0
Total Title I Cluster		<u>953,925</u>	<u>397,419</u>	<u>33,098</u>	<u>354,548</u>	<u>357,658</u>	<u>29,988</u>
Passed through Michigan Department of Education:							
Title VI Part B, Subpart 2:							
Rural and Low-Income Grant							
110660 2010-2011	84.358 B	34,600	0	0	34,600	34,600	0
Passed through the Michigan Department of Education:							
Title II Part A:							
Improving Teacher Quality							
100520 0910 2009-2010	84.367	92,313	92,313	11,940	0	11,940	0
110520 1011 2010-2011		92,855	0	0	92,855	90,519	2,336
		<u>185,168</u>	<u>92,313</u>	<u>11,940</u>	<u>92,855</u>	<u>102,459</u>	<u>2,336</u>
Passed through the Michigan Department of Education:							
ARRA Title II Part D Education Technology:							
Part D Formula Grants							
104295 0910 2009-2010	84.386	7,510	6,945	1,461	0	1,461	0
114295 1011 2010-2011		564	0	0	564	564	0
		<u>8,074</u>	<u>6,945</u>	<u>1,461</u>	<u>564</u>	<u>2,025</u>	<u>0</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2011

Federal Grantor or Pass Through Grantor <u>Program Title/Grant Number</u>	Federal <u>CFDA  Number</u>	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2010	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2011
Passed through Iosco Regional Educational Service Agency as Fiscal Agent: ARRA Special Education Flow Thru 100455 0910 2009-2010	84.391	\$ 243,317	\$ 0	\$ 0	\$ 190,000	\$ 120,544	\$ 69,456
Passed through Michigan Department of Education: ARRA Education Stabilization Fund 102525 0910 112525 1011	83.394	402,363	402,363	40,929	0	40,929	0
		160,352	0	0	160,352	136,695	23,657
		<u>562,715</u>	<u>402,363</u>	<u>40,929</u>	<u>160,352</u>	<u>177,624</u>	<u>23,657</u>
<u>U.S. Department of Education</u> (Continued)							
Passed through Michigan Department of Education Education Jobs fund 112545 1011	84.410A	304,934	0	0	304,934	269,848	35,086
Total U.S. Department of Education		<u>2,292,733</u>	<u>899,040</u>	<u>87,428</u>	<u>1,137,853</u>	<u>1,064,758</u>	<u>160,523</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Iosco Regional Educational Service Agency: Medical Assistance Program Title XIX: Medicaid Outreach Claims 2009-2010 Medicaid Outreach Claims 2010-2011	93.778	9,174	9,174	262	0	262	0
		735	0	0	735	0	735
		<u>9,909</u>	<u>9,174</u>	<u>262</u>	<u>735</u>	<u>262</u>	<u>735</u>
Total Federal Financial Awards		<u>\$ 2,982,204</u>	<u>\$ 1,220,542</u>	<u>\$ 87,690</u>	<u>\$ 1,505,822</u>	<u>\$ 1,432,254</u>	<u>\$ 161,258</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2011

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to financial statements:

General Fund	\$ 1,147,332
Special Revenue Fund:	
Lunch Fund	<u>358,490</u>
	<u>\$ 1,505,822</u>

August 15, 2011

Management and the Board of Education  
Tawas Area Schools  
Tawas City, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Tawas Area Schools for the year ended Thursday, June 30, 2011 and have issued our report dated August 15, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. The appendices to this letter set forth those communications as follows:

- I Communication with Those Charged with Governance
- II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on August 15, 2011. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the District and the Michigan Department of Education and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Grubb & Co., P.C.*

## **APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

### **Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated June 29, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing the audit, we will consider Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about Tawas Area Schools' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Tawas Area Schools' compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on Tawas Area Schools' compliance with those requirements.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated June 29, 2011.

## **APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

### **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 Tawas Area Schools are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed their accounting policies related to Fund Balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", in 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Balance Sheet.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Tawas Area Schools' financial statements was:

Management's estimate of the Incurred but not Reported Insurance Benefit Liability is based on an average daily amount of insurance claims. We evaluated the key factors and assumptions used to develop the Incurred but not Reported Insurance Benefit Liability in determining that it is reasonable in relation to the financial statements as a whole.

- ARRA funding has a dramatic effect on audit requirements. Due to the requirements built in the American Recovery and Reinvestment Act and the related federal Office of Management and Budget regulations, the number of federal programs we are required to audit and the audit procedures we are required to complete for each program has increased. The changes mean that if the School District received ARRA funding combined with the traditional federal assistance and the resulting programs are "smaller," the auditor may have to test them as well. The programs we tested this year are listed as "major programs" in the back of the School District's single audit report.

#### **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. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on August 15, 2011. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and 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 as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

## **APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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.

With respect to the supplementary information accompanying the financial statements, 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.

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended Thursday, June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Tawas Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Tawas Area Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a material weakness.

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

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

We have also noted other items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

### **ALLOWABLE COSTS/COST PRINCIPLES**

The Office of Management and Budget Circular A-87 requires that expenditures charged to the Title I Cluster are expenditures that benefit Title I students and enhance their learning environment. All expenditures must also be part of the District's approved consolidated application of planned expenditures. All other expenditures, such as General Education, are not allowable expenditures for the Title I Cluster. As part of our single audit testing, we noted two expenditures that were unallowable for the Title I Cluster. Both were initially drawn down, but after the issue was brought out during Single Audit testing, the District reduced the final draw request down by those unallowable expenditures. We recommend that management establish procedures to ensure that only allowable expenditures are charged to a federal award.



**APPENDIX II  
MANAGEMENT COMMENTS**

**PARENTAL INVOLVEMENT REQUIREMENTS**

The Office of Management and Budget Circular A-87 requires that when there are over \$500,000 in Title I allocations for the year, 1% of the allocation has to be set aside for Parental Involvement. Of the amount set aside, 95% of that amount has to be distributed. We noted that for the fiscal year ended 06/30/10, the District's allocation was over the \$500,000. The last of that allocation was distributed in the current fiscal year. Once all of the allocation was distributed, we determined that the District did not expend the required 95% of the reserved amount for Parental Involvement activities. We recommend that management establish procedures to ensure that the required allocations for Parental Involvement be expended in the future.

**STATUS OF PRIOR YEAR COMMENTS:**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation		X		
Segregation of Duties	X			
Student Activity Funds			X	
Time and Effort Reporting	X			
Competitive Bidding	X			