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Certified Public Accountants & Consultants

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TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2015

INDEX

**AUDITORS' REPORT**

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October 28, 2015

## Independent Auditors' Report

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the index.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 2, Tawas Area Schools has implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, as of June 30, 2015. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tawas Area Schools' basic financial statements. The combining nonmajor fund financial statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015, included in the Single Audit Report issued under a 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tawas Area Schools' internal control over financial reporting and compliance.

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

# Tawas Area Schools

245 West M-55 • Tawas City, MI 48763  
Jeffrey A. Hutchison, Superintendent  
Telephone (989) 984-2250 • Fax (989) 984-2253

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, 2015.

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, except the Construction Capital Projects Fund, for the 2014/2015 school year. The Construction Capital Projects Fund fund balance increased by \$9,052,338, primarily due to the issuance of bonds in the current year. Enrollment of students was fairly consistent with predictions. The cost containment strategies implemented by Administration offset the lack of increased revenues in the District. The state's continued economic struggle does not promote financial confidence. Our ability to reach our financial goals and to maintain an adequate fund balance will again present an ongoing challenge.

The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$2,042,205 (net position). Of this amount, \$(11,684,559) (unrestricted Net Position) is the result of the District's ongoing obligations to taxpayers, students and creditors.

The District's total Net Position increased by \$221,501. This represents increases in ongoing revenues combined with decreases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$12,680,038, an increase of \$9,067,799 in comparison with the prior year. Of this amount, \$2,038,070 (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, Construction Fund, Sinking Fund, Debt Retirement Fund, and Food Service Fund) was \$12,680,038 or 99% of the total expenditures of these operating funds.

The General Fund fund balance had a decrease in the current year of \$112,656 due to increases in General Fund expenditures that exceeded the related increases in revenues.

The Construction Fund fund balance had an increase in the current year of \$9,052,338 due to the issuance of bond proceeds exceeding the current year capital outlay.

The Sinking Fund fund balance increased by \$114,496 in the current year due to the property tax revenues exceeding the current year capital projects.

The Lunch Fund fund balance increased by \$10,973 due primarily to an increase in student participation in school lunch as a result of the participation promotions.

The Debt Retirement Fund fund balance did not experience significant changes in the current year.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

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.

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 position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Position 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*.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

Governmental Funds (Continued)

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 and Sinking Fund, which are both considered to be major funds. Data from the other two 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.

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 nonmajor fund financial statements 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.

The individual fund schedules presenting the General Fund – Details of Revenue Compared to Budget and the General Fund – Details of Expenditures Compared to Budget are immediately following the combined nonmajor fund financial statements referred to in the preceding paragraph.

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 Position was \$(2,042,205) at June 30, 2015. Of this amount, \$(11,684,559) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

Our analysis below focuses on the net position (Table 1) and the change in net position (Table 2) of the School District's governmental activities.

TABLE 1  
NET POSITION

	Governmental Activities	
	June 30, 2015	June 30, 2014
Current Assets	\$ 13,867,774	\$ 4,432,158
Noncurrent Assets:		
Capital Assets - Net	9,445,707	9,258,729
Total Assets	23,313,481	13,690,887
Deferred Outflows of Resources	1,527,483	793,719
Current Liabilities	1,156,544	797,437
Noncurrent Liabilities	24,140,721	15,950,875
Total Liabilities	25,297,265	16,748,312
Deferred Inflows of Resources	1,585,904	0
<u>Net Position</u>		
Net Investment in Capital Assets	9,022,464	8,704,678
Restricted	619,890	502,746
Unrestricted (Restated)	(11,684,559)	(11,471,130)
Total Net Position (Restated)	\$ (2,042,205)	\$ (2,263,706)

The \$(11,684,559) in unrestricted net position 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 (net pension liability for example); we would be short by \$(11,684,559). This shortfall is a direct result of the implementation of GASB 68 in the current year. See Note 10 of this report.

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2015	Year Ended June 30, 2014
Revenue:		
Program Revenue:		
Charges for Services	\$ 361,785	\$ 329,505
Operating Grants and Contributions	1,889,815	1,618,773
Capital Grants and Contributions	104,635	0
General Revenue:		
Current Property Taxes	5,201,050	5,142,074
State School Aid – Unrestricted	4,710,545	4,545,681
Investment Earnings	2,627	1,674
Gain (Loss) on Sale of Capital Assets	6,921	0
Miscellaneous	7,131	7,584
Total Revenue	12,284,509	11,645,291

TAWAS AREA SCHOOLS  
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2015	Year Ended June 30, 2014
Functions/Program Expenses:		
Instruction	\$ 7,052,974	\$ 6,651,870
Support Services	3,979,405	3,724,825
Community Services	17,316	9,564
Athletics	272,870	277,480
Food Services	605,669	575,429
Interest on Long-Term Debt	134,774	43,341
Total Functions/Program Expenses	12,063,008	11,282,509
Change in Net Position	221,501	362,782
Beginning Net Position (Restated)	(2,263,706)	(2,626,488)
Ending Net Position (Restated)	\$ (2,042,205)	\$ (2,263,706)

Governmental activities increased the District's net position by \$221,501.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$12,063,008. However, the amount that our taxpayers ultimately financed for these activities through the School District was only (\$5,201,050) because some of the cost was paid by those who benefited from the programs (\$361,785), by other governments and organizations who subsidized certain programs with grants and contributions (\$1,889,815), by unrestricted state school aid (\$4,710,545), and by miscellaneous sources (\$7,131).

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, 2015, 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 \$10,790,350. The amount is above the original budget estimate of \$10,378,296 and below the final amended budget of \$10,801,531. The variance between the actual revenues, the original budget and the final budget was due to normal budgeting practices and less revenues being received than anticipated for the fiscal year.

The actual expenditures of the general fund were \$10,894,927, which is above the original budget estimate of \$10,799,196 and below the final amended budget of \$10,929,804. The variance between the actual expenditures, the original budget and the final budget was mostly the result of various fluctuations in Support Service expenses.

The General Fund had total revenues of \$10,790,350 and total expenditures of \$10,894,927 with an ending fund balance of \$2,994,276.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$12,816,244. The governmental funds had a net gain in fund balance of \$9,067,799. The ending fund balance for all governmental funds was \$12,680,038 which represents 99% 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 LONG-TERM LIABILITY ADMINISTRATION

**Capital Assets**

At the end of fiscal year 2015, the District had \$20,157,447 invested in land and buildings, furniture and equipment, vehicles and buses, and software. Of this amount, \$10,711,740 in depreciation has been taken over the years. We currently have a net book value of \$9,445,707. Total additions for the year were \$623,748, of which, \$102,802 was construction in progress for the installation of wireless infrastructure, \$320,441 was construction in progress related to the High school and middle school additions & renovations bond project, \$123,920 was for the roof replacement at Clara Bolen Elementary, \$29,800 was for the purchase of a new 2015 pickup truck, \$5,585 was for the purchase of a snowplow for the 2015 pickup truck, and \$41,200 was for the purchase of Skyward software. Total disposals for the year were \$91,324, which consisted of a bus, a car and a pickup truck, all of which were fully depreciated.

Additional information on the District's capital assets can be found in Notes to Financial Statements, Note 5 of this report.

**Long-Term Debt**

At June 30, 2015, the District had \$9,720,000 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 7 of this report.

**Net Pension Liability**

At June 30, 2015, the District's Net Pension Liability amounted to \$14,345,511. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 10 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Even though the State did not pass the 2015/2016 school budget prior to Tawas Area Schools adopting our 2015/2016 budget, we still planned our financial future without as much speculation and assumption as in years past. We took a conservative approach to revenue predictions while preparing our budget. Student enrollment for budgeting purposes was estimated based on predictions and enrollment history. Amendments will be made in the fall to adjust to the States promise of School Aid Funds for the upcoming school year.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

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:

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

STATEMENT OF NET POSITION  
June 30, 2015

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 12,456,688
Receivables:	
Accounts, Net	82,740
Due From Other Governmental Units	1,274,257
Inventory: (Note 1)	
Supplies	3,296
Building Trades Lots	10,793
Prepaid Expenses	40,000
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 5)	573,768
Capital Assets Net of Accumulated Depreciation (Note 5)	<u>8,871,939</u>
 Total Assets	 <u>23,313,481</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability (Note 10)	<u>1,527,483</u>
<u>Liabilities</u>	
Accounts Payable	230,957
Due to Other Units	134,672
Interest Payable	51,548
Payroll Deductions and Withholdings	165,283
Accrued Expenses	11,586
Salaries Payable	461,723
Unearned Revenue - At Risk	100,775
Long-Term Liabilities	
Due within one year (Note 7)	225,339
Due in more than one year (Note 7)	9,569,871
Net Pension Liability (Note 10)	<u>14,345,511</u>
 Total Liabilities	 <u>25,297,265</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability (Note 10)	<u>1,585,904</u>
<u>Net Position</u>	
Net Investment in Capital Assets	9,022,464
Restricted For:	
Debt Retirement	10,970
Capital Projects	608,920
Unrestricted	<u>(11,684,559)</u>
 Total Net Position	 <u>\$ (2,042,205)</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, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 7,052,974	\$ 30,054	\$ 1,438,569	\$ 0	\$ (5,584,351)
Support Services	3,979,405	68,067	47,383	104,635	(3,759,320)
Community Services	17,316	2,611	0	0	(14,705)
Athletics	272,870	83,287	0	0	(189,583)
Food Services	605,669	177,766	403,863	0	(24,040)
Interest on Long-Term Debt	<u>134,774</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(134,774)</u>
 Total	 <u>\$ 12,063,008</u>	 <u>\$ 361,785</u>	 <u>\$ 1,889,815</u>	 <u>\$ 104,635</u>	 <u>(9,706,773)</u>
General Revenue:					
Property Taxes, Levied for General Purposes					4,379,480
Property Taxes, Levied for Debt Purposes					582,959
Property Taxes, Levied for Sinking Fund Purposes					238,611
State School Aid - Unrestricted					4,710,545
Investment Earnings					2,627
Gain (Loss) on Disposal of Capital Assets					6,921
Miscellaneous					<u>7,131</u>
Total General Revenue					<u>9,928,274</u>
 Change in Net Position					 221,501
 Net Position - Beginning (Restated) (Note 20)					 <u>(2,263,706)</u>
 Net Position - Ending					 <u>\$ (2,042,205)</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, 2015

	General Fund	Capital Projects Fund Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and Cash Equivalents (Note 3)	\$ 2,575,212	\$ 9,232,700	\$ 648,776	\$ 12,456,688
Receivables:				
Accounts, Net	0	82,740	0	82,740
Due From Other Governmental Units	1,266,908	0	7,349	1,274,257
Due from Other Funds (Note 4)	20	0	0	20
Inventory: (Note 1)				
Supplies	0	0	3,296	3,296
Building Trades Lots	10,793	0	0	10,793
Prepaid Expenses	40,000	0	0	40,000
 Total Assets	 \$ 3,892,933	 \$ 9,315,440	 \$ 659,421	 \$ 13,867,794
<u>Liabilities</u>				
Accounts Payable	\$ 50,595	\$ 180,362	\$ 0	\$ 230,957
Due to Other Governmental Units	134,672	0	0	134,672
Due to Other Funds (Note 4)	0	0	20	20
Payroll Deductions and Withholdings	154,132	0	11,151	165,283
Accrued Expenditures	11,586	0	0	11,586
Salaries Payable	446,897	0	14,826	461,723
Unearned Revenue - At Risk	100,775	0	0	100,775
Total Liabilities	898,657	180,362	25,997	1,105,016
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue - USF Grant	0	82,740	0	82,740
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	10,793	0	3,296	14,089
Prepaid Expenses	40,000	0	0	40,000
Restricted For:				
Debt Retirement	0	0	10,970	10,970
Capital Projects	0	9,052,338	608,920	9,661,258
Committed To:				
Bus Purchases	180,000	0	0	180,000
Technology Advancements	120,000	0	0	120,000
Textbooks	195,000	0	0	195,000
Assigned To:				
Food Service	0	0	10,238	10,238
2015/2016 Budgeted Expenditures	410,413	0	0	410,413
Unassigned	2,038,070	0	0	2,038,070
Total Fund Equity	2,994,276	9,052,338	633,424	12,680,038
 Total Liabilities, Deferred Inflows of Resources, and Fund Equity	 \$ 3,892,933	 \$ 9,315,440	 \$ 659,421	 \$ 13,867,794

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 POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2015

Total Governmental Fund Balances \$ 12,680,038

Amounts reported for governmental activities in the statement of net position 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	\$ 20,157,447	
Capital Asset Accumulated Depreciation	<u>(10,711,740)</u>	9,445,707

Accrued interest on long-term liabilities (51,548)

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:

Unavailable Revenue - USF Grant		82,740
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	1,527,483	
Deferred inflows of resources resulting from net pension liability	<u>(1,585,904)</u>	(58,421)

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 Unamortized Discount)	(9,682,274)	
Compensated Absences Payable	(86,088)	
Incurred But Not Reported Benefit Claims	(26,848)	
Net Pension Liability	<u>(14,345,511)</u>	<u>(24,140,721)</u>

Total Net Position - Governmental Activities \$ (2,042,205)

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, 2015

	<u>General Fund</u>	<u>Capital Projects Fund Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local Sources	\$ 4,542,632	\$ 1,004	\$ 999,631	\$ 5,543,267
State Sources	5,753,714	0	38,158	5,791,872
Federal Sources	416,285	0	365,705	781,990
Interdistrict Sources	77,719	0	0	77,719
Total Revenue	<u>10,790,350</u>	<u>1,004</u>	<u>1,403,494</u>	<u>12,194,848</u>
<u>Expenditures</u>				
Current:				
Instruction	6,711,745	0	0	6,711,745
Support Services	3,609,705	0	0	3,609,705
Community Services	16,762	0	0	16,762
Food Services	0	0	585,672	585,672
Athletics	249,798	0	0	249,798
Capital Outlay	306,917	570,713	124,295	1,001,925
Debt Service:				
Principal Retirement	0	0	560,000	560,000
Bond Issuance Costs	0	60,227	0	60,227
Interest and Fees on Long-Term Debt	0	0	20,410	20,410
Total Expenditures	<u>10,894,927</u>	<u>630,940</u>	<u>1,290,377</u>	<u>12,816,244</u>
Excess of Revenue Over (Under) Expenditures	<u>(104,577)</u>	<u>(629,936)</u>	<u>113,117</u>	<u>(621,396)</u>
<u>Other Financing Sources (Uses)</u>				
Bond Proceeds	0	9,682,274	0	9,682,274
Sale of Capital Assets	6,921	0	0	6,921
Operating Transfers In	0	0	15,000	15,000
Operating Transfers Out	(15,000)	0	0	(15,000)
Total Other Financing Sources (Uses)	<u>(8,079)</u>	<u>9,682,274</u>	<u>15,000</u>	<u>9,689,195</u>
Net Change in Fund Balances	(112,656)	9,052,338	128,117	9,067,799
Fund Balances - Beginning of Year (Restated) (Note 20)	<u>3,106,932</u>	<u>0</u>	<u>505,307</u>	<u>3,612,239</u>
Fund Balances - End of Year	<u>\$ 2,994,276</u>	<u>\$ 9,052,338</u>	<u>\$ 633,424</u>	<u>\$ 12,680,038</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, 2015

Total Net Change in Fund Balances - Governmental Funds \$ 9,067,799

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

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.

Current Year Depreciation Expense	\$ (436,770)	
Capital Outlays Reported in the Governmental Funds	<u>623,748</u>	186,978

Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense. The following amounts represent the current year net changes:

Net Pension Liability	915,257	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	733,764	
Deferred Inflows on Net Pension Liability	<u>(1,585,904)</u>	63,117

Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.

Bonds Payable	560,000	
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Governmental funds report the effect of discounts 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:

Bond Proceeds	(9,682,274)	
Amortization of Deferred Bond Discounts	<u>(5,949)</u>	(9,688,223)

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 effects of the treatment of these activities are as follows:

Interest	(48,188)	
Compensated Absences	(12,957)	
Incurred But Not Reported Benefit Claims	<u>10,235</u>	(50,910)

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide statements:

State of Michigan receivable		<u>82,740</u>
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Change in Net Position of Governmental Activities \$ 221,501

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, 2015

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ <u>147,064</u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u>147,064</u>

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, 2015

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. 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 funds:

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.

Construction Fund – The Construction Fund is used to account for activity related to the 2015 School Building and Site Bonds, including associated capital projects.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the accumulation of resources for, and the payment of debt.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 position 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 position is reported as restricted when constraints placed on net position 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 position restricted for other purposes result from special revenue and capital project funds and the restrictions on their net position 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, 2015

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 Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

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.

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, 2015, 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. Receivables

Receivables generally consist of grants, state aid, and other. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at June 30, 2015 was \$0.

G. 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.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

I. Inventory – Supplies

Inventory consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure/expense in the governmental and government wide financial statements when used.

J. Inventory - Building Trades Lots

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 position but are not reported in the fund financial statements.

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
Site Improvements	20 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years
Software	5 - 10 years

L. 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 position.

M. 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.

N. 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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences (Continued)

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.

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, 2015.

O. Net Pension Liability

The Michigan Public School Employees' Retirement System's (MPERS) (System) financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP). Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. Investments are reported at fair value.

P. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The School District reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the School District's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the School District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The School District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

Q. 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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance (Continued)

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.

R. 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.

S. 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, 2015, the foundation allowance was based on the average of pupil membership counts taken in October of 2014 and February of 2015.

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, 2014 - August, 2015. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. 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 unearned revenue.

U. 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.

V. 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, 2015.

W. Economic Dependency

The School District received approximately 47% 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.

X. 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.

Y. 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 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.

TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Budgetary Policies and Data (Continued)

4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

Z. Reclassifications

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2015, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 68, "Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27".

GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also provides decision-useful information, supporting assessments of accountability and interperiod equity; creating additional transparency.

NOTE 3 - 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	\$ 12,456,688	\$ 147,064	\$ 12,603,752

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking Accounts)	\$ 283,580
Investments in Pooled Funds	12,319,472
Petty Cash and Cash on Hand	700
Total	\$ 12,603,752

As of June 30, 2015, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ 12,319,472	Daily

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - 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, 2015, the School District's investment in the Cadre Consulting Service, Inc. 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, 2015, \$89,287 of the School District's bank balance of \$339,287 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.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2015 were as follows:

DUE TO	DUE FROM
	Non-major Governmental Funds
General Fund	\$ <u>20</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 01, 2014	Additions	Deletions	Balance June 30, 2015
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Construction in Progress	<u>0</u>	<u>423,243</u>	<u>0</u>	<u>423,243</u>
Subtotal	<u>150,525</u>	<u>423,243</u>	<u>0</u>	<u>573,768</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	14,087,808	123,920	0	14,211,728
Site Improvements	2,918,921	0	0	2,918,921
Furniture, Fixtures and Equipment	907,727	5,585	0	913,312
Vehicles and Buses	1,560,042	29,800	(91,324)	1,498,518
Software	<u>0</u>	<u>41,200</u>	<u>0</u>	<u>41,200</u>
Subtotal	<u>19,474,498</u>	<u>200,505</u>	<u>(91,324)</u>	<u>19,583,679</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,368,352)	(266,680)	0	(6,635,032)
Site Improvements	(2,023,709)	(56,283)	0	(2,079,992)
Furniture, Fixtures and Equipment	(795,853)	(27,409)	0	(823,262)
Vehicles and Buses	<u>(1,178,380)</u>	<u>(86,398)</u>	<u>91,324</u>	<u>(1,173,454)</u>
Subtotal	<u>(10,366,294)</u>	<u>(436,770)</u>	<u>91,324</u>	<u>(10,711,740)</u>
Capital Assets Being Depreciated	<u>9,108,204</u>	<u>(236,265)</u>	<u>0</u>	<u>8,871,939</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,258,729</u>	<u>\$ 186,978</u>	<u>\$ 0</u>	<u>\$ 9,445,707</u>

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities

Instruction	\$ 258,967
Support Services	145,009
Community Services	635
Athletics	9,972
Food Services	<u>22,187</u>
	<u>\$ 436,770</u>

NOTE 6 - 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, 2015.

NOTE 7 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
2015 School Building and Site Bonds:				
The bonds dated March 5, 2015 which bear interest from 2.00% to 4.00% are due serially each November 1 and May 1 through 2041				
	2015	\$ <u>9,720,000</u>	\$ <u>4,810,778</u>	\$ <u>14,530,778</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2015 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 200,000	\$ 350,390	\$ 550,390
2017	280,000	298,388	578,388
2018	285,000	292,687	577,687
2019	290,000	286,938	576,938
2020	300,000	281,037	581,037
2021 - 2025	1,625,000	1,282,788	2,907,788
2026 - 2030	1,880,000	1,020,937	2,900,937
2031 - 2035	2,225,000	696,875	2,921,875
2036 - 2040	2,350,000	289,338	2,639,338
2041	<u>285,000</u>	<u>11,400</u>	<u>296,400</u>
Totals	<u>\$ 9,720,000</u>	<u>\$ 4,810,778</u>	<u>\$ 14,530,778</u>

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

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 \$86,088 at June 30, 2015, of which \$0 was the estimated current portion.

C. 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, 2015 are as follows:

	6/30/2015
Claims Liability, Beginning of Year	\$ 37,083
Claims and Damages Incurred	190,394
Claims Payments	(200,629)
Claims Liability, End of Year	\$ 26,848

D. 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, 2015:

	Balance July 1, 2014	Increase	Decrease	Balance June 30, 2015	Amount Due in One Year
<u>Governmental Activities</u>					
Bonds	\$ 560,000	\$ 9,720,000	\$ (560,000)	\$ 9,720,000	\$ 200,000
Deferred Amounts for Issuance Discount	(5,949)	(37,726)	5,949	(37,726)	(1,509)
Total Bonds Payable, Net	554,051	9,682,274	(554,051)	9,682,274	198,491
Compensated Absences Incurred but not Reported Benefit Claims	73,131 37,083	12,957 * 190,394	0 (200,629)	86,088 26,848	0 26,848
Total Long-Term Liabilities	\$ 664,265	\$ 9,885,625	\$ (754,680)	\$ 9,795,210	\$ 225,339

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

The interest expense on long-term obligations for the year was \$68,348.

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

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2015, the following transfers were made:

	TRANSFER FROM	General Fund
Lunch Fund	\$	15,000

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 9 - 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, 2015, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

Fund/Function	Total Appropriations	Amount of Expenditures	Budget Variance
General/Athletics	\$ 248,348	\$ 249,798	\$ 1,450
General/Capital Outlay	\$ 305,254	\$ 306,917	\$ 1,663

NOTE 10 - DEFINED BENEFIT PLAN

**Organization**

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Organization (Continued)**

Plan Description (Continued)

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

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

MPSERS issues a publicly-available Comprehensive Annual Financial Report. That report may be obtained by writing to ORS at P.O. Box 30171, Lansing, Michigan 48909-7671, or on the Internet at <http://www.michigan.gov/orsschools>.

Benefits Provided

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

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. 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%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, 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. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Organization (Continued)**

Member Contributions (Continued)

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

**Contributions and Funding Status**

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Net Pension Liability**

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

**MPSERS (Plan) Net Pension Liability**

As of September 30, 2014

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>43,134,384,072</u>
<b>Net Pension Liability</b>	<b><u>\$ 22,026,503,110</u></b>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the School District's proportionate share between beginning net pension liability and ending net pension liability.

**MPSERS (Plan) Net Pension Liability**

As of October 1, 2013

Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	<u>39,427,686,072</u>
<b>Net Pension Liability</b>	<b><u>\$ 23,431,813,922</u></b>

Proportionate Share of the School District's Net Pension Liability

At September 30, 2014, the School District reported a liability of \$14,345,511 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the School District's proportionate share percent was 0.06513%.

Long-Term Expected Rate of Return On Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Net Pension Liability (Continued)**

Long-Term Expected Rate of Return on Plan Assets (Continued)

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	4.8 %
Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
	<u>100.0%</u>	

\*Long-term rate of return does not include 2.5% inflation.

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Position Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 18,913,307	\$ 14,345,511	\$ 10,497,076

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Net Pension Liability (Continued)**

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- $\lambda$  Wage Inflation Rate: 3.5%
- $\lambda$  Investment Rate of Returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plans Plan (Hybrid): 7.0%
- $\lambda$  Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- $\lambda$  Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- $\lambda$  Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Net Pension Liability (Continued)**

Actuarial Valuations and Assumptions (Continued)

*Notes:*

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

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

For the year ended June 30, 2015, the School District recognized pension expense of \$1,162,027. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 0	\$ 0
Change of assumptions	529,319	0
Net difference between projected and actual earnings on pension plan investments	0	1,585,902
Changes in proportion and differences between School District contributions and proportionate share of contributions	0	2
School District contributions subsequent to the measurement date	998,164	0
<b>Total</b>	<b>\$ 1,527,483</b>	<b>\$ 1,585,904</b>

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

**Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Continued)**

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

<b>Deferred (Inflows) and Deferred Outflows of Resources by Year</b>	
<u>Year Ended June 30</u>	<u>Amount</u>
2015	\$ 739,327
2016	(258,837)
2017	(258,836)
2018	<u>(280,075)</u>
	<u>\$ (58,421)</u>

NOTE 11 - 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.

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 \$20,617 for the year ended June 30, 2015.

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 \$134,878 for the year ended June 30, 2015. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 12 - DEFINED CONTRIBUTION PLAN

Plan Description

The School District's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. 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. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. 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

Prior to February 2013, the School District employees who were part of the PPP were required to contribute 2% of their earnings for the plan year, unless they elected out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

Beginning February 2013 and after, the rates vary depending on which plan the active member is a participant of. The School District employees that are part of the PPP with Premium Subsidy or a Personal Healthcare Fund (PHF) are not required to contribute. If they do contribute they can contribute in full percent increments and the employer will match 50% of the contribution up to 1%. For the PPP with PHF the employee and employer contribution is 2% for the PHF.

The following are the DC pension and PHF contribution requirements for each applicable plan option:

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2015, the School District contributed \$25,397 on behalf of eligible employees. Employee contributions amounted to \$42,715 for eligible employees.

TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 13 - 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, 2015.

NOTE 14 - BONDED CONSTRUCTION FUND AND SINKING FUND

The Construction Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

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 15 - 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 16 - 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, 2015

NOTE 17 - COMMITMENTS

The School District has contractual commitments for architectural and engineering services related to the Bond Project with THA Architects Engineers of Flint, Michigan. The total commitment is for \$468,000, with \$171,990 outstanding at June 30, 2015. For the portion of the project completed, there remains a contract payable of \$73,710 at June 30, 2015.

In addition, on June 8, 2015 the School District has entered into a contract with Star Trac Enterprise to resurface the running track with lines and markings for \$29,000. No work had begun on this project as of June 30, 2015.

**Contractual commitments**

As of June 30, 2015, the School District had the following contractual commitments in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at June 30, 2015</u>	<u>Contract Payable at June 30, 2015</u>
Architectural and Engineering Services for Bond Project	\$ 468,000	\$ 171,990	\$ 73,710
Resurfacing the Running Track	<u>29,000</u>	<u>29,000</u>	<u>0</u>
	<u>\$ 497,000</u>	<u>\$ 200,990</u>	<u>\$ 73,710</u>

NOTE 18 - 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, 2015, 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 School District is currently a defendant in a lawsuit. The outcome of this lawsuit is not presently determinable. However, the School District's insurance company will be covering any costs that result from the lawsuit above the deductible, which the School District has already met.

NOTE 19 - SUBSEQUENT EVENTS

On July 13, 2015, the School District accepted a bid from R. Roese Contracting Company, Inc. for the Directional Bore Project for a total of \$22,951 to be paid from the Construction Fund.

On September 14, 2015, the School District approved the Contractor recommendations for Bid Package 1, for the High School construction projects, for a total of \$7,018,036, with additional alternates for a total of \$210,151.

TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 20 - PRIOR PERIOD ADJUSTMENT

The June 30, 2014 financial statements have been restated for the following adjustments:

Adjustment 1 - A prior period adjustment was required due to a change in policy that eliminated accruals for July and August employee benefits included at June 30, 2014. The adjustment increases the General Fund Beginning Fund Balance by \$142,012 and the Governmental Activities Beginning Net Position by \$167,854

Adjustment 2 - A prior period adjustment was required for MPERS 147(c) liability that was overstated through Accrued Wages at June 30, 2014. The adjustment increases the General Fund Beginning Fund Balance and the Governmental Activities Beginning Net Position by \$20,780.

Adjustment 3 - GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Therefore, a prior period adjustment was made to record the beginning Net Pension Liability, net of the related Deferred Inflows and Outflows, in the Governmental Activities Statement of Net Position, for \$14,467,049.

	General Fund	Governmental Activities
Net Position - Beginning	\$ 2,944,140	\$ 12,014,709
Adjustment 1	142,012	167,854
Adjustment 2	20,780	20,780
Adjustment 3	0	(14,467,049)
Net Position - Beginning (Restated)	\$ 3,106,932	\$ (2,263,706)

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2015</u>
School District's proportion of net pension liability (%)	0.06513%
School District's proportionate share of net pension liability	\$ 14,345,511
School District's covered-employee payroll	\$ 5,585,135
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	256.85%
Plan fiduciary net position as a percentage of total pension liability	66.20%

Notes to the Schedule of the School District's Proportionate Share of the Net Pension Liability:

**Changes of benefit terms:** There were no changes of benefit terms in 2014.

**Changes of assumptions:** There were no changes of benefit assumptions in 2014.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
(Amounts determined as of 6/30 of each year)

	<u>2015</u>
Statutorily required contributions	\$ 1,261,049
Contributions in relation to statutorily required contributions*	<u>1,261,049</u>
Contribution deficiency (excess)	<u>\$ 0</u>
School District's covered-employee payroll	\$ 5,607,009
Contributions as a percentage of covered-employee payroll	22.49%

\*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

Notes to the Schedule of the School District's Contributions:

**Changes of benefit terms:** There were no changes of benefit terms in 2014.

**Changes of assumptions:** There were no changes of benefit assumptions in 2014.

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, 2015

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 4,503,094	\$ 4,551,329	\$ 4,542,632	\$ (8,697)
State Sources	5,361,733	5,773,164	5,753,714	(19,450)
Federal Sources	469,469	421,211	416,285	(4,926)
Interdistrict Sources	44,000	55,827	77,719	21,892
Total Revenue	<u>10,378,296</u>	<u>10,801,531</u>	<u>10,790,350</u>	<u>(11,181)</u>
<u>Expenditures</u>				
Current:				
Instruction	6,670,174	6,720,763	6,711,745	9,018
Support Services	3,650,915	3,638,660	3,609,705	28,955
Community Services	11,749	16,779	16,762	17
Athletics	239,405	248,348	249,798	(1,450)
Capital Outlay	226,953	305,254	306,917	(1,663)
Total Expenditures	<u>10,799,196</u>	<u>10,929,804</u>	<u>10,894,927</u>	<u>34,877</u>
Excess of Revenue Over (Under) Expenditures	<u>(420,900)</u>	<u>(128,273)</u>	<u>(104,577)</u>	<u>23,696</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	6,921	6,921	0
Operating Transfers Out	<u>(25,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(8,079)</u>	<u>(8,079)</u>	<u>0</u>
Net Change in Fund Balances	(445,900)	(136,352)	(112,656)	23,696
Fund Balances - Beginning of Year (Restated)	<u>3,106,932</u>	<u>3,106,932</u>	<u>3,106,932</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 2,661,032</u>	<u>\$ 2,970,580</u>	<u>\$ 2,994,276</u>	<u>\$ 23,696</u>

OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
June 30, 2015

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>	<u>2003 Refunding Bond Fund</u>	<u>Sinking Fund</u>	
<u>Assets</u>				
Cash and Cash Equivalents	\$ 28,886	\$ 10,970	\$ 608,920	\$ 648,776
Receivables:				
Due From Other Governmental Units	7,349	0	0	7,349
Inventory:				
Supplies	<u>3,296</u>	<u>0</u>	<u>0</u>	<u>3,296</u>
Total Assets	<u>\$ 39,531</u>	<u>\$ 10,970</u>	<u>\$ 608,920</u>	<u>\$ 659,421</u>
<u>Liabilities</u>				
Due to Other Funds	\$ 20	\$ 0	\$ 0	\$ 20
Payroll Deductions and Withholdings	11,151	0	0	11,151
Salaries Payable	<u>14,826</u>	<u>0</u>	<u>0</u>	<u>14,826</u>
Total Liabilities	<u>25,997</u>	<u>0</u>	<u>0</u>	<u>25,997</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	3,296	0	0	3,296
Restricted For:				
Debt Retirement	0	10,970	0	10,970
Capital Projects	0	0	608,920	608,920
Assigned To:				
Food Service	<u>10,238</u>	<u>0</u>	<u>0</u>	<u>10,238</u>
Total Fund Equity	<u>13,534</u>	<u>10,970</u>	<u>608,920</u>	<u>633,424</u>
Total Liabilities and Fund Equity	<u>\$ 39,531</u>	<u>\$ 10,970</u>	<u>\$ 608,920</u>	<u>\$ 659,421</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, 2015

	Special Revenue Fund	Debt Retirement Fund	Capital Projects Fund	Total Other Governmental Funds
	Lunch Fund	2003 Refunding Bond Fund	Sinking Fund	
<u>Revenue</u>				
Local Sources	\$ 177,782	\$ 583,058	\$ 238,791	\$ 999,631
State Sources	38,158	0	0	38,158
Federal Sources	365,705	0	0	365,705
Total Revenue	581,645	583,058	238,791	1,403,494
<u>Expenditures</u>				
Current:				
Food Services	585,672	0	0	585,672
Capital Outlay	0	0	124,295	124,295
Debt Service:				
Principal Retirement	0	560,000	0	560,000
Interest and Fees on Long-Term Debt	0	20,410	0	20,410
Total Expenditures	585,672	580,410	124,295	1,290,377
Excess of Revenue Over (Under) Expenditures	(4,027)	2,648	114,496	113,117
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	15,000	0	0	15,000
Net Change in Fund Balances	10,973	2,648	114,496	128,117
Fund Balances - Beginning of Year	2,561	8,322	494,424	505,307
Fund Balances - End of Year	\$ 13,534	\$ 10,970	\$ 608,920	\$ 633,424

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2015  
With Comparative Totals for the Year Ended June 30, 2014

	<u>2015 Amended Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
<u>Local Sources</u>			
Current Property Taxes	\$ 4,379,480	\$ 4,379,480	\$ 4,330,485
Tuition	2,611	2,611	2,779
Summer School Tuition	4,540	4,540	3,865
Transportation Fees	40,348	38,741	40,014
Gate Receipts	55,275	55,274	46,175
Interest on Investments	1,306	1,328	1,411
Rents	3,741	3,741	3,741
Booster Donations	0	0	42,350
Medicaid Fee for Service	25,514	25,514	18,474
Miscellaneous Local Sources	<u>38,514</u>	<u>31,403</u>	<u>38,763</u>
	<u>4,551,329</u>	<u>4,542,632</u>	<u>4,528,057</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,547,360	4,547,348	4,402,927
Special Education	233,916	233,916	214,739
At Risk	337,098	336,622	239,103
Technology Infrastructure	12,530	15,025	49,968
Best Practices	62,462	67,913	68,290
MPSERS UAAL Rate Stabilization	458,270	457,606	267,620
Other MPSERS State Aid	90,847	90,739	74,464
Miscellaneous State Sources	<u>30,681</u>	<u>4,545</u>	<u>0</u>
	<u>5,773,164</u>	<u>5,753,714</u>	<u>5,317,111</u>
<u>Federal Sources</u>			
ECIA Title I	326,099	302,723	314,080
ECIA Title II- Improving Teacher Quality	62,753	79,858	68,808
ECIA Title VI	23,286	23,286	24,828
Medicaid Outreach	0	1,346	0
Schools and Roads Grant Funds	<u>9,073</u>	<u>9,072</u>	<u>9,033</u>
	<u>421,211</u>	<u>416,285</u>	<u>416,749</u>
<u>Interdistrict Sources</u>			
Vocational Education	26,500	26,498	6,613
Services Provided to Other Public Schools	29,327	29,326	28,421
Technology Improvements	0	21,895	0
	<u>55,827</u>	<u>77,719</u>	<u>35,034</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	<u>6,921</u>	<u>6,921</u>	<u>0</u>
Total Revenue and Other Financing Sources	<u>\$ 10,808,452</u>	<u>\$ 10,797,271</u>	<u>\$ 10,296,951</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2015  
With Comparative Totals for the Year Ended June 30, 2014

	<u>2015</u> <u>Amended</u> <u>Budget</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,123,142	\$ 1,123,138	\$ 1,201,535
Employee Benefits	768,244	766,538	708,018
Purchased Services	50,227	49,319	30,341
Supplies, Materials and Other	<u>21,380</u>	<u>20,904</u>	<u>55,547</u>
	<u>1,962,993</u>	<u>1,959,899</u>	<u>1,995,441</u>
Junior High School			
Salaries	648,789	650,027	640,182
Employee Benefits	474,023	473,390	415,962
Purchased Services	28,279	27,894	27,716
Supplies, Materials and Other	<u>9,468</u>	<u>9,093</u>	<u>11,389</u>
	<u>1,160,559</u>	<u>1,160,404</u>	<u>1,095,249</u>
High School			
Salaries	1,285,038	1,285,035	1,172,197
Employee Benefits	857,205	855,218	701,304
Purchased Services	49,611	48,850	50,894
Supplies, Materials and Other	<u>68,534</u>	<u>67,833</u>	<u>95,113</u>
	<u>2,260,388</u>	<u>2,256,936</u>	<u>2,019,508</u>
Summer School			
Salaries	2,527	11,781	1,550
Employee Benefits	<u>915</u>	<u>4,832</u>	<u>559</u>
	<u>3,442</u>	<u>16,613</u>	<u>2,109</u>
<b>Total Basic Programs</b>	<u><b>5,387,382</b></u>	<u><b>5,393,852</b></u>	<u><b>5,112,307</b></u>
Added Needs:			
Special Education			
Salaries	449,183	449,176	429,696
Employee Benefits	258,986	258,623	226,533
Purchased Services	60,973	60,923	53,962
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>4,126</u>
	<u>769,142</u>	<u>768,722</u>	<u>714,317</u>
Compensatory Education			
Salaries	219,302	208,806	260,999
Employee Benefits	122,316	117,795	108,620
Purchased Services	1,391	1,407	0
Supplies, Materials and Other	<u>6,212</u>	<u>6,228</u>	<u>14,291</u>
	<u>349,221</u>	<u>334,236</u>	<u>383,910</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2015  
With Comparative Totals for the Year Ended June 30, 2014

	<u>2015 Amended Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 55,653	\$ 55,639	\$ 58,634
Employee Benefits	34,268	34,202	32,284
Purchased Services	116,881	116,880	150,507
Supplies, Materials and Other	<u>8,216</u>	<u>8,214</u>	<u>2,600</u>
	<u>215,018</u>	<u>214,935</u>	<u>244,025</u>
 Total Added Needs	 <u>1,333,381</u>	 <u>1,317,893</u>	 <u>1,342,252</u>
 Total Instruction	 <u>6,720,763</u>	 <u>6,711,745</u>	 <u>6,454,559</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	83,557	83,555	81,298
Employee Benefits	57,979	57,892	48,711
Purchased Services	0	0	1,020
Supplies, Materials and Other	<u>107</u>	<u>314</u>	<u>243</u>
	<u>141,643</u>	<u>141,761</u>	<u>131,272</u>
 Health Services			
Purchased Services	<u>7,485</u>	<u>6,998</u>	<u>4,812</u>
 Psychological Services			
Purchased Services	<u>5,260</u>	<u>5,255</u>	<u>4,405</u>
 Speech			
Salaries	64,173	64,171	62,108
Employee Benefits	43,635	43,545	37,095
Supplies, Materials and Other	<u>798</u>	<u>795</u>	<u>0</u>
	<u>108,606</u>	<u>108,511</u>	<u>99,203</u>
 Social Work			
Salaries	120,164	120,159	117,234
Employee Benefits	83,901	83,718	69,309
Purchased Services	<u>0</u>	<u>0</u>	<u>66</u>
	<u>204,065</u>	<u>203,877</u>	<u>186,609</u>
 Total Pupil Services	 <u>467,059</u>	 <u>466,402</u>	 <u>426,301</u>
 Instructional Staff:			
Instructional Improvement			
Purchased Services	<u>37,687</u>	<u>37,682</u>	<u>32,079</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2015  
With Comparative Totals for the Year Ended June 30, 2014

	<u>2015 Amended Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
<u>Support Services</u> (Continued)			
Instructional Staff: (Continued)			
Library Services			
Salaries	\$ 34,537	\$ 34,534	\$ 34,104
Employee Benefits	16,755	16,748	18,366
Purchased Services	1,172	1,171	1,518
Supplies, Materials and Other	<u>7,331</u>	<u>7,329</u>	<u>7,577</u>
	<u>59,795</u>	<u>59,782</u>	<u>61,565</u>
Computer Assisted Instruction Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>2,632</u>
Director of Instruction Supplies, Materials and Other	<u>2,770</u>	<u>2,765</u>	<u>8,328</u>
Academic Student Assessment Supplies, Materials and Other	<u>35</u>	<u>35</u>	<u>0</u>
Total Instructional Staff	<u>100,287</u>	<u>100,264</u>	<u>104,604</u>
General Administration:			
Board of Education			
Salaries	9,300	8,970	6,510
Purchased Services	<u>35,900</u>	<u>54,734</u>	<u>45,893</u>
	<u>45,200</u>	<u>63,704</u>	<u>52,403</u>
Executive Administration			
Salaries	166,602	166,601	147,369
Employee Benefits	162,914	162,912	76,049
Purchased Services	29,636	29,707	30,473
Supplies, Materials and Other	<u>22,248</u>	<u>21,586</u>	<u>18,218</u>
	<u>381,400</u>	<u>380,806</u>	<u>272,109</u>
Total General Administration	<u>426,600</u>	<u>444,510</u>	<u>324,512</u>
School Administration:			
Office of the Principal			
Salaries	454,529	454,521	462,627
Employee Benefits	291,133	291,120	276,171
Purchased Services	1,649	1,648	2,516
Supplies, Materials and Other	<u>27,454</u>	<u>26,876</u>	<u>31,623</u>
	<u>774,765</u>	<u>774,165</u>	<u>772,937</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2015  
With Comparative Totals for the Year Ended June 30, 2014

	<u>2015</u> <u>Amended</u> <u>Budget</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>
<u>Support Services (Continued)</u>			
Business:			
Fiscal Services			
Salaries	\$ 116,476	\$ 116,475	\$ 115,314
Employee Benefits	77,192	83,448	68,638
Purchased Services	28,409	28,409	30,034
Other Expenditures	<u>28,268</u>	<u>2,131</u>	<u>7,523</u>
	<u>250,345</u>	<u>230,463</u>	<u>221,509</u>
Operations and Maintenance:			
Salaries	263,223	262,865	282,536
Employee Benefits	193,694	190,415	190,670
Purchased Services	434,254	422,557	440,281
Supplies, Materials and Other	<u>35,275</u>	<u>35,932</u>	<u>30,444</u>
	<u>926,446</u>	<u>911,769</u>	<u>943,931</u>
Transportation:			
Salaries	236,514	236,362	243,848
Employee Benefits	120,712	117,524	143,715
Purchased Services	82,034	77,879	57,073
Supplies, Materials and Other	<u>112,374</u>	<u>109,285</u>	<u>130,381</u>
	<u>551,634</u>	<u>541,050</u>	<u>575,017</u>
Central Services:			
Salaries	18,738	18,738	18,738
Employee Benefits	12,471	12,471	12,204
Purchased Services	<u>636</u>	<u>636</u>	<u>0</u>
	<u>31,845</u>	<u>31,845</u>	<u>30,942</u>
Technology:			
Salaries	57,625	57,501	54,968
Employee Benefits	32,948	32,892	33,814
Purchased Services	<u>19,106</u>	<u>18,844</u>	<u>10,941</u>
	<u>109,679</u>	<u>109,237</u>	<u>99,723</u>
Total Support Services	<u>3,638,660</u>	<u>3,609,705</u>	<u>3,499,476</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	7,248	7,248	4,117
Employee Benefits	6,271	6,252	3,391
Purchased Services	2,760	2,762	1,470
Supplies, Materials and Other	<u>500</u>	<u>500</u>	<u>465</u>
Total Community Services	<u>16,779</u>	<u>16,762</u>	<u>9,443</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2015  
With Comparative Totals for the Year Ended June 30, 2014

	2015 Amended Budget	2015 Actual	2014 Actual
<u>Athletics</u>			
Salaries	\$ 29,415	\$ 29,414	\$ 26,275
Employee Benefits	12,476	12,472	10,772
Equipment and Supplies	370	370	1,269
Purchased Services	190,213	190,211	180,864
Other Expenditures	<u>15,874</u>	<u>17,331</u>	<u>19,947</u>
Total Athletics	<u>248,348</u>	<u>249,798</u>	<u>239,127</u>
<u>Capital Outlay</u>			
Instruction	63,471	64,121	71,652
Support Services	229,352	229,366	236,619
Athletics	<u>12,431</u>	<u>13,430</u>	<u>59,667</u>
Total Capital Outlay	<u>305,254</u>	<u>306,917</u>	<u>367,938</u>
<u>Operating Transfers Out</u>			
Food Service Fund	<u>15,000</u>	<u>15,000</u>	<u>25,000</u>
Total Expenditures	<u>\$ 10,944,804</u>	<u>\$ 10,909,927</u>	<u>\$ 10,595,543</u>



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Robert J. Morand, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2015

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October 28, 2015

INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements and have issued our report thereon dated October 28, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tawas Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tawas Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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 to be a material weakness. 2015-001.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. 2015-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free from 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*.

**Tawas Area Schools' Response to Findings**

Tawas Area Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Tawas Area Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

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



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October 28, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Tawas Area Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Tawas Area Schools' major federal programs for the year ended June 30, 2015. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Tawas Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Tawas Area Schools' compliance.

***Opinion on Each Major Federal Program***

In our opinion, Tawas Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

*Other Matters*

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-003. Our opinion on each major federal program is not modified with respect to this matter.

Tawas Area Schools' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Tawas Area Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

*Report on Internal Control Over Compliance*

Management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Tawas Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2015, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements. We issued our report thereon dated October 28, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

TAWAS AREA SCHOOLS  
losco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2015

Findings - Financial Statements Audit

2014-001

Information Technology Inventory

The District maintained an IT inventory listing, but it was not consistently updated and items on the listing purchased with federal funds are not being properly tagged.

The situation has been corrected. The IT inventory listing is now being maintained and consistently updated, including tagging items purchased with federal funds.

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, 2014.

TAWAS AREA SCHOOLS  
losco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2015

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Tawas Area Schools.
2. One material weakness and one significant deficiency in internal control relating to the audit of the financial statements are reported in the Independent Auditors' 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 relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unmodified opinion.
6. 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: Title I Cluster, CFDA #84.010 and Child Nutrition Cluster, CFDA #10.553 and 10.555
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 Statement Audit

2015-001

Financial Statement Preparation

**Condition and Criteria:** Accounting principles require personnel of Tawas Area Schools to have the knowledge to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. Tawas Area Schools' personnel prepare financial information throughout the year to assess the operations and the financial condition of the District. However, prior to the closing of the year end multiple reclassification journal entries, material to the financial statements, were proposed by their Independent Audit Firm. Also, the District relies on their Independent Audit Firm to assist in reporting the annual financial report 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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2015

Findings - Financial Statement Audit (Continued)

2015-001

Financial Statement Preparation (Continued)

**Cause:** The District relies on their Independent Audit Firm to assist in reporting the annual financial report in accordance with GAAP as well as propose material journal entries to the financial statements.

**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.

**Auditor's Recommendation:** We recommend that Management and those charged with governance evaluate and document their decision on the cost and benefits of whether to contract for this service with their Independent Audit Firm.

**Views of Responsible Officials and Planned Corrective Actions:** The District understands the risk of having the auditors prepare the financial statements and has 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. In addition, the 2015 PPC Governmental Disclosure Checklist is received and reviewed by the Finance Coordinator 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.

2015-002

Lack of Sufficient Support for Activity Fund Transactions

**Condition and Criteria:** Proper internal control mandates that proper oversight be conducted regarding the completeness of all District deposits. Currently, no third party/independent verification of participation for activity accounts is being included in the reconciliation process for calculating completeness of activity fund deposits.

**Effect:** Completeness of the deposits cannot be ensured, allowing for the potential misappropriation of District assets.

**Cause:** The District does not require third party/independent verification of participation as part of their activity account deposit procedures.

**Context:** Tawas Area Schools does not currently have policies or procedures in place requiring that third party/independent verification of participation be included as part of the activity reconciliation process.

**Auditor's Recommendation:** We recommend that management implement procedures to require that external or third party verifications be attached to each activity report, supporting the total participation per activity. This verification should then be reviewed by the Business Office as part of their oversight procedures.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2015

Findings - Financial Statement Audit (Continued)

2015-002

Lack of Sufficient Support for Activity Fund Transactions (Continued)

**Views of Responsible Officials and Planned Corrective Actions:** The Business Office will begin requiring that all employees turning in activity fund deposit reports, be supported by some sort of third party/independent verification. The Business Office will then recalculate all expected revenues accordingly, to ensure that the proper amount was deposited.

Findings and Questioned Costs - Major Federal Award Programs Audit

2015-003

Title I - Cash Management

CFDA No. 84.010, Grant No. 151530 - Year ended September 30, 2015

**Condition and Criteria:** The Michigan Department of Education's Auditing Manual requires that all monies are not requested until after the expenses have been incurred as well as after actual disbursement of those funds.

**Effect:** The District is out of compliance with the cash management requirements.

**Cause:** Two situations were found that caused this requirement to not be met. The first was the result of a prior period adjustment being recorded in the current year, with the related costs being drawn a second time (once in the prior year and then again in the current year). The second situation was the result of the Title II Virtual Transfer Dollars not being handled correctly, and therefore being drawn down, off of the wrong grant.

**Context:** Management did not realize that the virtual transfer amounts were charged to the wrong grant, and did not realize that the prior period adjustment would cause them to draw expenses a second time.

**Questioned Costs:** \$0. The District had questioned costs of \$23,212 as of year-end, however, the final draw was then reduced by this amount, leaving no remaining questioned costs.

**Auditor's Recommendation:** We recommend that management establish procedures to ensure the accuracy of postings to the general ledger information, prior to requesting down grant funds.

**Views of Responsible Officials and Planned Corrective Actions:** The Business Office is now aware of the proper way to draw the grants when there are prior period adjustments and virtual transfers present and will properly account for them in future years.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2015

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, 2014	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2015
<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	\$ 31,135	\$ 0	\$ 0	\$ 31,135	\$ 31,135	\$ 0
Cash Assistance:							
School Breakfast Program							
141970 2013-2014	10.553	70,460	62,417	0	8,043	8,043	0
151970 2014-2015		75,405	0	0	75,405	75,405	0
		<u>145,865</u>	<u>62,417</u>	<u>0</u>	<u>83,448</u>	<u>83,448</u>	<u>0</u>
National School Lunch Program							
Section 11 - Free and Reduced							
141960 2013-2014	10.555	249,896	218,539	0	31,357	31,357	0
151960 2014-2015		219,765	0	0	219,765	219,765	0
		<u>469,661</u>	<u>218,539</u>	<u>0</u>	<u>251,122</u>	<u>251,122</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>							
		<u>615,526</u>	<u>280,956</u>	<u>0</u>	<u>334,570</u>	<u>334,570</u>	<u>0</u>
Total Child Nutrition Cluster							
		<u>646,661</u>	<u>280,956</u>	<u>0</u>	<u>365,705</u>	<u>365,705</u>	<u>0</u>
Passed through Iosco County:							
Schools and Roads Grants Funds							
	10.665	9,072	0	0	9,072	9,072	0
Total U.S. Department of Agriculture							
		<u>655,733</u>	<u>280,956</u>	<u>0</u>	<u>374,777</u>	<u>374,777</u>	<u>0</u>
<u>U.S. Department of Education</u>							
Passed through the Michigan Department of Education:							
Title I - Grants to Local Educational Agencies							
141530 1314 2013-2014	84.010	351,603	314,080	165,761	0	165,761	0
151530 1415 2014-2015		365,511	0	0	302,723	148,406	154,317
		<u>717,114</u>	<u>314,080</u>	<u>165,761</u>	<u>302,723</u>	<u>314,167</u>	<u>154,317</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, 2015

<u>Federal Grantor or Pass Through Grantor Program Title/Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2014</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Final Accrued (Deferred) Revenue June 30, 2015</u>
<u>U.S. Department of Education</u> (Continued)							
Passed through the Michigan Department of Education:							
Title VI Part B, Subpart 2:							
Rural and Low-Income Grant							
150660 2014-2015	84.358B	\$ 23,286	\$ 0	\$ 0	\$ 23,286	\$ 20,594	\$ 2,692
Title II Part A:							
Improving Teacher Quality							
140520 1314 2013-2014	84.367	82,238	68,808	20,412	0	20,412	0
150520 1415 2014-2015		90,629	0	0	79,858	47,596	32,262
		<u>172,867</u>	<u>68,808</u>	<u>20,412</u>	<u>79,858</u>	<u>68,008</u>	<u>32,262</u>
Total U.S. Department of Education		<u>913,267</u>	<u>382,888</u>	<u>186,173</u>	<u>405,867</u>	<u>402,769</u>	<u>189,271</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 2013-2014	93.778	1,346	0	0	1,346	0	1,346
Total Federal Financial Awards		<u>\$ 1,570,346</u>	<u>\$ 663,844</u>	<u>\$ 186,173</u>	<u>\$ 781,990</u>	<u>\$ 777,546</u>	<u>\$ 190,617</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, 2015

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	\$ 416,285
Special Revenue Fund:	
Lunch Fund	<u>365,705</u>
	<u>\$ 781,990</u>



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA

October 28, 2015

Management and the Board  
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 for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 8, 2015. Professional standards also require that we communicate to you the following information related to 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 July 31, 2015. 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, Gracik & Co., P.C.*

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

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

As stated in our engagement letter dated January 8, 2015, 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 our 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. 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.

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

We performed the audit as outlined in our engagement letter related to planning matters dated January 8, 2015.

### **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 2 to the financial statements, Tawas Area Schools changed accounting policies related to Pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Tawas Area Schools' financial statements was:

Management's estimate of the net pension liability is based on the actuarial valuation audited by the Auditor General. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

- The financial statement disclosures are neutral, consistent, and clear.

### **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 clearly trivial, and communicate them to the appropriate level of management. A summary of audit differences, both adjusted and unadjusted was provided to management on October 28, 2015. 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 and material misstatements detected as a result of audit procedures, communicated to management on July 31, 2015, were corrected by management.

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 28, 2015.

### **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 Tawas Area Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Tawas Area Schools's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

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

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

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

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of 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, 2015, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tawas Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a material weakness and one deficiency that we consider to be a significant deficiency.

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 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 Tawas Area Schools' financial statements. However, if at any point in the audit we as auditors are part of Tawas Area Schools' control system for producing reliable financial statements, auditing standards indicate that Tawas Area Schools' 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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in Tawas Area Schools' internal control to be a significant deficiency:

### **STUDENT ACTIVITY FUNDS**

During the audit we found that the completeness of activity fund deposits could not be assured. Although management currently has good controls in place to ensure that each student activity event is supported by a completed activity control report, there is currently no requirement to support the activity's participation with some sort of external or third party verification (i.e., student sign in sheets, class roster, etc.). We recommend that management implement procedures requiring that some sort of external or third party verification be attached to each activity report, supporting total participation per activity, in order for the Business Office to properly verify completeness of all deposits.

**APPENDIX II  
MANAGEMENT COMMENTS**

For example, for a fieldtrip, the activity control report showing the calculation of the number of students going on the fieldtrip multiplied by the total charge per student should then be supported by a roster of the students who attended the fieldtrip, along with a copy of the letter or notice showing the applicable cost per student. Another example would be for an athletic camp; a sign in sheet should be kept by all athletes attending the event, and should then be attached to the activity control report which shows the calculation of the number of athletes in attendance multiplied by the total charge per person. Please note that the totals from the control reports should then agree to the amount deposited and should then be tied into the bank statement by the Business Office.

During our audit, we also became aware of the following deficiency in internal control other than a significant deficiency or material weakness, or other matter that is an opportunity for strengthening internal controls and operating efficiency.

**CASH MANAGEMENT**

The Michigan Department of Education’s Auditing Manual requires that all monies are not requested until after the expenses have been incurred as well as after actual disbursement of those funds. During our audit testing, we found two situations that caused this requirement to not be met. The first was the result of a prior period adjustment being recorded in the current year, with the related costs being drawn a second time (once in the prior year and then again in the current year). The second situation was the result of the Title II Virtual Transfer Dollars not being handled correctly, and therefore being drawn down, off of the wrong grant. These two situations caused the Title I grant to be overdrawn in total by \$23,212 at year-end. However, we would like to note that as of the date of the audit report, the final draw had been reduced by this amount, leaving no remaining questioned costs. We recommend that management establish procedures to ensure the accuracy of postings to the general ledger information , prior to requesting down grant funds.

**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>
Information Technology Inventory	X			
Payroll Contracts		X		