



*Stephenson & Company, P.C.*

Certified Public Accountants & Consultants

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TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2017

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**AUDITORS' REPORT**

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August 11, 2017

## 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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and 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 August 11, 2017, 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 & Company, 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, 2017.

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, Capital Projects 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 2016/2017 school year. The Construction Capital Projects Fund fund balance decreased by \$3,402,635, primarily due to finalizing the majority of the construction in the current year connected to the issuance of bonds in a prior 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 \$1,622,611 (net position). Of this amount, \$(12,302,720) (unrestricted Net Position) is the result of the District's ongoing obligations to taxpayers, employees, students and creditors.

The District's total Net Position increased by \$678,133 in the current year. This is due to an increase in State School Aid of about \$230,000, combined with various increases in ongoing revenues and decreases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,931,444, a decrease of \$3,422,138 in comparison with the prior year. Of this amount, \$2,571,252 (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 \$3,931,444 or 24% of the total expenditures of these operating funds.

The General Fund fund balance had an increase in the current year of \$58,040 due to increases in General Fund revenues that exceeded the related increases in expenditures.

The Construction Fund fund balance had a decrease in the current year of \$3,402,635 due to the current year construction projects.

The Sinking Fund fund balance decreased by \$88,345 in the current year due to the current year capital projects exceeding the property tax revenues.

The Other Governmental Funds fund balances increased in the current year by \$10,802 due to revenues exceeding expenditures.

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2017

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 revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2017

Governmental Funds (Continued)

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Sinking Fund, and Construction 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 this Management's Discussion and Analysis, Required Pension Schedules, and 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 \$(1,622,611) at June 30, 2017. Of this amount, \$(12,302,720) 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, 2017

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, 2017	June 30, 2016
Current Assets	\$ 5,081,341	\$ 9,439,965
Noncurrent Assets:		
Capital Assets - Net	18,800,453	14,748,872
Total Assets	23,881,794	24,188,837
Deferred Outflows of Resources	2,351,699	2,008,827
Current Liabilities	1,199,845	2,137,264
Noncurrent Liabilities	26,086,829	25,863,131
Total Liabilities	27,286,674	28,000,395
Deferred Inflows of Resources	569,430	498,013
<u>Net Position</u>		
Net Investment in Capital Assets	9,800,074	9,809,422
Restricted	880,035	4,363,851
Unrestricted (Deficit)	(12,302,720)	(16,474,017)
Total Net Position	\$ (1,622,611)	\$ (2,300,744)

The \$(12,302,720) 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 \$(12,302,720). This shortfall is a direct result of the implementation of GASB 68 in a prior year. See Note 7 of this report.

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2017	Year Ended June 30, 2016
Revenues:		
Program Revenues:		
Charges for Services	\$ 385,392	\$ 400,061
Operating Grants and Contributions	2,079,106	1,803,612
Capital Grants and Contributions	54,712	37,288
General Revenues:		
Current Property Taxes	5,261,019	5,244,643
State School Aid – Unrestricted	4,865,765	4,633,150
Investment Earnings	50,349	22,350
Gain (Loss) on Sale of Capital Assets	10,185	0
Miscellaneous	4,359	6,291
Total Revenues	12,710,887	12,147,395



TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2017

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2017	Year Ended June 30, 2016
Functions/Program Expenses:		
Instruction	\$ 7,134,735	\$ 7,383,071
Support Services	3,714,724	3,742,212
Community Services	9,986	15,716
Athletics	248,145	284,449
Food Services	622,810	628,754
Interest on Long-Term Debt	302,354	351,732
Total Functions/Program Expenses	12,032,754	12,405,934
Change in Net Position	678,133	(258,539)
Beginning Net Position	(2,300,744)	(2,042,205)
Ending Net Position	\$ (1,622,611)	\$ (2,300,744)

Governmental activities increased the District's net position by \$678,133.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$12,032,754. However, the amount that our taxpayers ultimately financed for these activities through the School District was only (\$5,261,019) because some of the cost was paid by those who benefited from the programs (\$385,392), by other governments and organizations who subsidized certain programs with grants and contributions (\$2,079,106), by unrestricted state school aid (\$4,865,765), gain on sale of capital assets (\$10,185), and by miscellaneous sources (\$4,359).

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, 2017, 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 \$11,264,256. The amount is above the original budget estimate of \$10,949,200 and below the final amended budget of \$11,290,561. 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 \$11,216,401, which is below the original and final budget estimates of \$11,287,088 and \$11,260,566, respectively. The variance between the actual expenditures, the original budget and the final budget was mostly the result of fluctuations in various expenditures.

The General Fund had total revenues of \$11,264,256 and total expenditures of \$11,216,401 with an ending fund balance of \$3,043,659.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2017

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$16,392,173. The governmental funds had a net loss in fund balance of \$3,422,138. The ending fund balance for all governmental funds was \$3,931,444 which represents 24% 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 2017, the District had \$29,577,555 invested in land and buildings, furniture and equipment, vehicles and buses, and software. Of this amount, \$10,777,102 in depreciation has been taken over the years. We currently have a net book value of \$18,800,453. Total additions for the year were \$4,504,321, of which, \$131,123 was construction in progress for the unit ventilator project, \$3,631,286 was building and improvements related to the High school and middle school additions & renovations bond project, \$9,000 was for a new LCD projector, \$15,990 was for two floor auto scrubbers, \$12,990 was for two copy machines, \$195,126 was for two Blue Bird buses, \$201,806 was for parking lot additions, \$276,000 was for water main extension, and \$31,000 was for the purchase of equipment. In addition, \$5,900,298 was transferred from construction in progress to buildings and improvements and site improvements in the current year. Total disposals for the year were \$344,554, which consisted of several buses, all of which were fully depreciated.

Additional information on the District's capital assets can be found in Notes to Financial Statements, Note 4 of this report.

**Long-Term Debt**

At June 30, 2017, the District had \$9,240,000 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 6 of this report.

**Net Pension Liability**

At June 30, 2017, the District's Net Pension Liability amounted to \$16,775,004. 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 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

When adopting our 2017/2018 budget we took a conservative approach to revenue predictions and we planned expenditures known at the time. 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, 2017

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, 2017

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 3,806,488
Receivables:	
Accounts, Net	3,589
Due From Other Governmental Units	1,217,615
Inventory:	
Supplies	2,856
Building Trades Lots	10,793
Prepaid Items	40,000
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 4)	281,648
Capital Assets, Net of Accumulated Depreciation (Note 4)	<u>18,518,805</u>
 Total Assets	 <u>23,881,794</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability (Note 7)	<u>2,351,699</u>
<u>Liabilities</u>	
Accounts Payable	113,467
Due to Other Units	148,664
Interest Payable	49,948
Payroll Deductions and Withholdings	221,916
Accrued Expenses	14,751
Salaries Payable	643,767
Unearned Revenue - At Risk	7,332
Long-Term Liabilities	
Due within one year (Note 6)	303,900
Due in more than one year (Note 6)	9,007,925
Net Pension Liability (Note 7)	<u>16,775,004</u>
 Total Liabilities	 <u>27,286,674</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability (Note 7)	<u>569,430</u>
<u>Net Position</u>	
Net Investment in Capital Assets	9,800,074
Restricted For:	
Debt Retirement	59,941
Capital Projects	820,094
Unrestricted (Deficit)	<u>(12,302,720)</u>
 Total Net Position	 <u>\$ (1,622,611)</u>

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenue and Change in Net Position
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 7,134,735	\$ 42,855	\$ 1,612,543	\$ 0	\$ (5,479,337)
Support Services	3,714,724	59,802	54,947	54,712	(3,545,263)
Community Services	9,986	1,270	2,493	0	(6,223)
Athletics	248,145	85,123	0	0	(163,022)
Food Services	622,810	196,342	409,123	0	(17,345)
Interest on Long-Term Debt	<u>302,354</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(302,354)</u>
 Total	 <u>\$ 12,032,754</u>	 <u>\$ 385,392</u>	 <u>\$ 2,079,106</u>	 <u>\$ 54,712</u>	 <u>(9,513,544)</u>
 General Revenues:					
Property Taxes, Levied for General Purposes					4,435,614
Property Taxes, Levied for Debt Purposes					585,457
Property Taxes, Levied for Sinking Fund Purposes					239,948
State School Aid - Unrestricted					4,865,765
Investment Earnings					50,349
Gain (Loss) on Disposal of Capital Assets					10,185
Miscellaneous					<u>4,359</u>
Total General Revenues					<u>10,191,677</u>
 Change in Net Position					 678,133
 Net Position - Beginning					 <u>(2,300,744)</u>
 Net Position - Ending					 <u>\$ (1,622,611)</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, 2017

	Capital Projects Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Sinking Fund	Construction Fund		
<u>Assets</u>					
Cash and Cash Equivalents (Note 3)	\$ 2,821,661	\$ 683,949	\$ 204,913	\$ 95,965	\$ 3,806,488
Receivables:					
Accounts, Net	3,526	0	0	63	3,589
Due From Other Governmental Units	1,213,950	0	0	3,665	1,217,615
Inventory:					
Supplies	0	0	0	2,856	2,856
Building Trades Lots	10,793	0	0	0	10,793
Prepaid Items	<u>40,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>40,000</u>
 Total Assets	 <u>\$ 4,089,930</u>	 <u>\$ 683,949</u>	 <u>\$ 204,913</u>	 <u>\$ 102,549</u>	 <u>\$ 5,081,341</u>
<u>Liabilities</u>					
Accounts Payable	\$ 44,699	\$ 68,768	\$ 0	\$ 0	\$ 113,467
Due to Other Governmental Units	148,664	0	0	0	148,664
Payroll Deductions and Withholdings	210,599	0	0	11,317	221,916
Accrued Expenditures	14,751	0	0	0	14,751
Salaries Payable	620,226	0	0	23,541	643,767
Unearned Revenue - At Risk	<u>7,332</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,332</u>
Total Liabilities	<u>1,046,271</u>	<u>68,768</u>	<u>0</u>	<u>34,858</u>	<u>1,149,897</u>
<u>Fund Equity</u>					
Fund Balances:					
Nonspendable:					
Inventory	10,793	0	0	2,856	13,649
Prepaid Items	40,000	0	0	0	40,000
Restricted For:					
Debt Retirement	0	0	0	59,941	59,941
Capital Projects	0	615,181	204,913	0	820,094
Committed To:					
Bus Purchases	100,000	0	0	0	100,000
Technology Advancements	120,000	0	0	0	120,000
Textbooks	195,000	0	0	0	195,000
Assigned To:					
Food Service	0	0	0	4,894	4,894
2017/2018 Budgeted Expenditures	6,614	0	0	0	6,614
Unassigned	<u>2,571,252</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,571,252</u>
Total Fund Equity	<u>3,043,659</u>	<u>615,181</u>	<u>204,913</u>	<u>67,691</u>	<u>3,931,444</u>
 Total Liabilities and Fund Equity	 <u>\$ 4,089,930</u>	 <u>\$ 683,949</u>	 <u>\$ 204,913</u>	 <u>\$ 102,549</u>	 <u>\$ 5,081,341</u>

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2017

Total Governmental Fund Balances		\$ 3,931,444
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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:</p>		
Capital Asset Cost	\$ 29,577,555	
Capital Asset Accumulated Depreciation	<u>(10,777,102)</u>	18,800,453
Accrued interest on long-term liabilities		(49,948)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	2,351,699	
Deferred inflows of resources resulting from net pension liability	<u>(569,430)</u>	1,782,269
<p>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:</p>		
Bonds Payable (Net of Unamortized Discount)	(9,205,292)	
Compensated Absences Payable	(86,124)	
Incurred But Not Reported Benefit Claims	(20,409)	
Net Pension Liability	<u>(16,775,004)</u>	<u>(26,086,829)</u>
Total Net Position - Governmental Activities		\$ <u><u>(1,622,611)</u></u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017

	Capital Projects Funds			Other	Total
General Fund	Sinking Fund	Construction Fund	Governmental Funds	Governmental Funds	Governmental Funds
<u>Revenue</u>					
Local Sources	\$ 4,646,417	\$ 244,297	\$ 21,439	\$ 782,522	\$ 5,694,675
State Sources	6,228,459	0	0	51,041	6,279,500
Federal Sources	366,060	0	54,213	358,082	778,355
Interdistrict Sources	23,320	0	0	0	23,320
Total Revenue	11,264,256	244,297	75,652	1,191,645	12,775,850
<u>Expenditures</u>					
Current:					
Instruction	6,815,811	0	0	0	6,815,811
Support Services	3,699,244	0	0	0	3,699,244
Community Services	9,605	0	0	0	9,605
Food Services	0	0	0	601,955	601,955
Athletics	241,458	0	0	0	241,458
Capital Outlay	450,283	332,642	3,475,397	0	4,258,322
Debt Service:					
Principal Retirement	0	0	184,000	280,000	464,000
Interest and Fees on Long-Term Debt	0	0	2,890	298,888	301,778
Total Expenditures	11,216,401	332,642	3,662,287	1,180,843	16,392,173
Excess of Revenue Over (Under) Expenditures	47,855	(88,345)	(3,586,635)	10,802	(3,616,323)
<u>Other Financing Sources (Uses)</u>					
Loan Proceeds	0	0	184,000	0	184,000
Sale of Capital Assets	10,185	0	0	0	10,185
Total Other Financing Sources (Uses)	10,185	0	184,000	0	194,185
Net Change in Fund Balances	58,040	(88,345)	(3,402,635)	10,802	(3,422,138)
Fund Balances - Beginning of Year	2,985,619	703,526	3,607,548	56,889	7,353,582
Fund Balances - End of Year	\$ 3,043,659	\$ 615,181	\$ 204,913	\$ 67,691	\$ 3,931,444

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, 2017

Total Net Change in Fund Balances - Governmental Funds \$ (3,422,138)

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	\$ (452,740)	
Capital Outlays Reported in the Governmental Funds	<u>4,504,321</u>	4,051,581

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	(508,073)	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	342,872	
Deferred Inflows on Net Pension Liability	<u>(71,417)</u>	(236,618)

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	280,000	
Loans Payable	<u>184,000</u>	464,000

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. Debt issued provides current financial resources to governmental funds, but issuing debt increases liabilities in the Statement of Net Position. The net effect of these differences in the treatment of debt proceeds, general obligation bonds and related items is as follows:

Loan Proceeds	(184,000)	
Amortization of Deferred Bond Discounts	<u>(1,509)</u>	(185,509)

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	933	
Compensated Absences	3,692	
Incurred But Not Reported Benefit Claims	<u>2,192</u>	<u>6,817</u>

Change in Net Position of Governmental Activities \$ 678,133

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, 2017

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ <u><u>174,239</u></u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u><u>174,239</u></u>

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

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.

Sinking Fund – The Sinking Fund accounts for the acquisition or construction of major capital facilities.

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, 2017

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, 2017

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, 2017

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, 2017, 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, 2017 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, 2017

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, 2017

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, 2017.

O. Net Pension Liability

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

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.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance (Continued)

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

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

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

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

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

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

R. Property Taxes

The School District levies its property taxes on July 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, 2017, the foundation allowance was based on the average of pupil membership counts taken in October of 2016 and February of 2016.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Foundation Revenue (Continued)

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified and commercial property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2016 - August, 2017. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

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, 2017.

W. Economic Dependency

The School District received approximately 49% 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  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Budgetary Policies and Data (Continued)

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

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

Z. Reclassifications

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2017, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 77, "Tax Abatement Disclosures". GASB Statement No. 77 requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens.

The adoption of this standard did not have a significant impact on the amounts reported in these financial statements.

For 2018, the School District will be required to implement GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". GASB Statement No. 75 improves accounting and financial reporting by state and local governments by establishing standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

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	\$ 3,806,488	\$ 174,239	\$ 3,980,727

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking Accounts)	\$ 334,533
Investments in Pooled Funds	3,645,594
Petty Cash and Cash on Hand	600
Total	\$ 3,980,727

TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2017, the School District had the following investments:

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ <u>3,645,594</u>	Daily

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, 2017, 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, 2017, \$167,343 of the School District's bank balance of \$417,343 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

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

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

Foreign Currency Risk

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Construction in Progress	5,900,298	131,123	(5,900,298)	131,123
Subtotal	6,050,823	131,123	(5,900,298)	281,648
Capital Assets Being Depreciated:				
Buildings and Improvements	14,211,728	9,410,792	0	23,622,520
Site Improvements	2,953,521	598,498	0	3,552,019
Furniture, Fixtures and Equipment	615,635	69,080	0	684,715
Vehicles and Buses	1,544,881	195,126	(344,554)	1,395,453
Software	41,200	0	0	41,200
Subtotal	19,366,965	10,273,496	(344,554)	29,295,907
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,904,013)	(273,487)	0	(7,177,500)
Site Improvements	(2,135,996)	(57,977)	0	(2,193,973)
Furniture, Fixtures and Equipment	(433,355)	(37,942)	0	(471,297)
Vehicles and Buses	(1,195,552)	(75,094)	344,554	(926,092)
Software	0	(8,240)	0	(8,240)
Subtotal	(10,668,916)	(452,740)	344,554	(10,777,102)
Capital Assets Being Depreciated	8,698,049	9,820,756	0	18,518,805
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ 14,748,872	\$ 9,951,879	\$ (5,900,298)	\$ 18,800,453

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

Governmental Activities

Instruction	\$ 275,335
Support Services	143,399
Community Services	385
Athletics	9,579
Food Services	24,042
	\$ 452,740

NOTE 5 - 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, 2017.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	Date of Contract	Principal Due	Interest	Total Obligation
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	\$	9,240,000	\$	4,162,000
			\$	13,402,000

The annual principal and interest requirements for long-term debt for the years after June 30, 2017 are as follows:

	Government Activities		
	Principal	Interest	Total
2018	\$ 285,000	\$ 292,687	\$ 577,687
2019	290,000	286,938	576,938
2020	300,000	281,037	581,037
2021	305,000	274,938	579,938
2022	315,000	266,662	581,662
2023 - 2027	1,725,000	1,183,313	2,908,313
2028 - 2032	2,005,000	900,850	2,905,850
2033 - 2037	2,375,000	543,875	2,918,875
2038 - 2041	1,640,000	131,700	1,771,700
Totals	\$ 9,240,000	\$ 4,162,000	\$ 13,402,000

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 \$86,124 at June 30, 2017, of which \$0 was the estimated current portion.

C. USDA Loan Payable

On July 28, 2016, the School District entered into an agreement with the United States Department of Agriculture for a Loan of \$184,000 at 2.25% interest for 40 years. This loan was paid off in its entirety during the current year.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Health Insurance

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

The changes in the Health Insurance claims liability for the year ended June 30, 2017 are as follows:

	<u>6/30/2017</u>
Claims Liability, Beginning of Year	\$ 22,601
Claims and Damages Incurred	206,551
Claims Payments	<u>(208,743)</u>
Claims Liability, End of Year	<u>\$ 20,409</u>

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2017:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds	\$ 9,520,000	\$ 0	\$ (280,000)	\$ 9,240,000	\$ 285,000
Deferred Amounts for Issuance					
Discount	<u>(36,217)</u>	<u>0</u>	<u>1,509</u>	<u>(34,708)</u>	<u>(1,509)</u>
Total Bonds Payable, Net	9,483,783	0	(278,491)	9,205,292	283,491
Loans Payable	0	184,000	(184,000)	0	0
Compensated Absences Incurred but not Reported	89,816	0	(3,692)*	86,124	0
Benefit Claims	<u>22,601</u>	<u>206,551</u>	<u>(208,743)</u>	<u>20,409</u>	<u>20,409</u>
Total Long-Term Liabilities	<u>\$ 9,596,200</u>	<u>\$ 390,551</u>	<u>\$ (674,926)</u>	<u>\$ 9,311,825</u>	<u>\$ 303,900</u>

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

The interest expense on long-term obligations for the year was \$302,354.

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 7 - DEFINED BENEFIT PLAN

**Organization**

Plan Description

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

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

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

Benefits Provided

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

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

**Contributions and Funding Status**

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

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

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.



TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 7 - DEFINED BENEFIT PLAN (CONTINUED)

**Contributions and Funding Status (Continued)**

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.95 %
Member Investment Plan	3.0 - 7.0	18.95
Pension Plus	3.0 - 6.4	17.73
Defined Contribution	0.0	14.56

Required contributions to the pension plan from the School District were \$1,509,835 for the year ended September 30, 2016.

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

At June 30, 2017, the School District reported a liability of \$16,775,004 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The School District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.06724%, which was an increase of 0.00064% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$1,702,912. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 209,061	\$ 39,757
Change of assumptions	262,264	0
Net difference between projected and actual earnings on pension plan investments	278,800	0
Changes in proportion and differences between School District contributions and proportionate share of contributions	320,151	10,394
School District contributions subsequent to the measurement date	1,281,423	0
<b>Total</b>	<b>\$ 2,351,699</b>	<b>\$ 50,151</b>

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 7 - DEFINED BENEFIT PLAN (CONTINUED)

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

In addition to the deferred inflows of resources noted above, the District also has \$519,279 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$762,144 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ 998,292
2018	214,222
2019	486,450
2020	<u>83,305</u>
	<u>\$ 1,782,269</u>

Actuarial Valuations and Assumptions

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

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- λ Valuation Date: September 30, 2015
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 3.5%
- λ Investment Rate of Returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plans Plan (Hybrid): 7.0%
- λ Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- λ Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 7 - DEFINED BENEFIT PLAN (CONTINUED)

Actuarial Valuations and Assumptions (Continued)

- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. 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.

*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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, 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: 4.6273
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

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, 2016, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 7 - DEFINED BENEFIT PLAN (CONTINUED)

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 School District's Proportionate Share of the Net Pension 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%
\$ 21,601,983	\$ 16,775,004	\$ 12,705,397

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

**Payables to the Michigan Public School Employees' Retirement System (MPERS)**

At June 30, 2017, there were reported payables to MPERS of \$293,503, which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

NOTE 8 - DEFERRED COMPENSATION PLANS

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 8 - DEFERRED COMPENSATION PLAN (CONTINUED)

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. 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 MPERS. Employee contributions to the TDP program totaled \$13,890 for the year ended June 30, 2017.

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 \$170,172 for the year ended June 30, 2017. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 9 - 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.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 9 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Funding Policy (Continued)

- 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, 2017, the School District contributed \$29,521 on behalf of eligible employees. Employee contributions amounted to \$41,597 for eligible employees.

NOTE 10 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$0 as of June 30, 2017.

NOTE 11 - 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.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the Construction Fund. The project for which the 2015 School Building and Site Bonds were issued was considered complete on May 1, 2017 and the cumulative expenditures recognized for the construction period were \$9,593,548.

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

NOTE 12 - RISK MANAGEMENT

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

NOTE 13 - GOVERNMENTAL REGULATION

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

NOTE 14 - COMMITMENTS

The School District had commitments in the amount of \$433,821 outstanding at June 30, 2017. The first commitment was approved on February 13, 2017 for the unit ventilator project to be awarded to the lowest confirmed bid as presented up to \$335,470. The other commitment was approved on June 26, 2017 to purchase a Blue Bird 84-passenger bus through Holland Bus Company at a cost of \$98,351.

NOTE 15 - 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, 2017, 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.

As of June 30, 2017, the School District was a defendant in a lawsuit, however, as of the date of this report, a settlement has been agreed to by both parties of an immaterial amount that will be covered by the School District's insurance company as the School District has already met their deductible.

NOTE 16 - SUBSEQUENT EVENTS

On July 24, 2017, the School District approved construction project bids for the football field electrical storage facility from Lakeshore Construction (\$83,200), administration building roof replacement from Lakeshore Construction (\$21,600), and window replacement at the middle/high school from Dave's Glass (\$134,600).

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>2017</u>		<u>2016</u>		<u>2015</u>
School District's proportion of net pension liability (%)	0.06724%		0.06660%		0.06513%
School District's proportionate share of net pension liability	\$ 16,775,004	\$	16,266,931	\$	14,345,511
School District's covered-employee payroll	\$ 5,694,488	\$	5,552,237	\$	5,585,135
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	294.58%		292.98%		256.85%
Plan fiduciary net position as a percentage of total pension liability	63.27%		63.17%		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 2016.

**Changes of assumptions:** There were no changes of benefit assumptions in 2016.

TAWAS AREA SCHOOLS  
Losco County, Michigan

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Statutorily required contributions	\$ 1,540,519	\$ 1,529,575	\$ 1,261,049
Contributions in relation to statutorily required contributions*	<u>1,540,519</u>	<u>1,529,575</u>	<u>1,261,049</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 School District's covered-employee payroll	 \$ 5,432,492	 \$ 5,486,840	 \$ 5,607,009
 Contributions as a percentage of covered-employee payroll	 28.36%	 27.88%	 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 2016.

**Changes of assumptions:** There were no changes of benefit assumptions in 2016.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 4,653,823	\$ 4,666,439	\$ 4,646,417	\$ (20,022)
State Sources	5,905,294	6,234,370	6,228,459	(5,911)
Federal Sources	363,760	366,430	366,060	(370)
Interdistrict Sources	<u>26,323</u>	<u>23,322</u>	<u>23,320</u>	<u>(2)</u>
Total Revenue	<u>10,949,200</u>	<u>11,290,561</u>	<u>11,264,256</u>	<u>(26,305)</u>
<u>Expenditures</u>				
Current:				
Instruction	6,869,534	6,827,737	6,815,811	11,926
Support Services	3,765,672	3,721,303	3,699,244	22,059
Community Services	13,638	9,611	9,605	6
Athletics	256,605	245,307	241,458	3,849
Capital Outlay	<u>381,639</u>	<u>456,608</u>	<u>450,283</u>	<u>6,325</u>
Total Expenditures	<u>11,287,088</u>	<u>11,260,566</u>	<u>11,216,401</u>	<u>44,165</u>
Excess of Revenue Over (Under) Expenditures	<u>(337,888)</u>	<u>29,995</u>	<u>47,855</u>	<u>17,860</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	10,185	10,185	0
Operating Transfers Out	<u>(20,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>10,185</u>	<u>10,185</u>	<u>0</u>
Net Change in Fund Balances	(357,888)	40,180	58,040	17,860
Fund Balances - Beginning of Year	<u>2,985,619</u>	<u>2,985,619</u>	<u>2,985,619</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 2,627,731</u>	<u>\$ 3,025,799</u>	<u>\$ 3,043,659</u>	<u>\$ 17,860</u>

OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2017

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>	<u>2015 School Building and Site Bonds Fund</u>	
<u>Assets</u>			
Cash and Cash Equivalents	\$ 36,024	\$ 59,941	\$ 95,965
Receivables:			
Accounts, Net	63	0	63
Due From Other Governmental Units	3,665	0	3,665
Inventory:			
Supplies	<u>2,856</u>	<u>0</u>	<u>2,856</u>
Total Assets	<u>\$ 42,608</u>	<u>\$ 59,941</u>	<u>\$ 102,549</u>
<u>Liabilities</u>			
Payroll Deductions and Withholdings	\$ 11,317	\$ 0	\$ 11,317
Salaries Payable	<u>23,541</u>	<u>0</u>	<u>23,541</u>
Total Liabilities	<u>34,858</u>	<u>0</u>	<u>34,858</u>
<u>Fund Equity</u>			
Fund Balances:			
Nonspendable:			
Inventory	2,856	0	2,856
Restricted For:			
Debt Retirement	0	59,941	59,941
Assigned To:			
Food Service	<u>4,894</u>	<u>0</u>	<u>4,894</u>
Total Fund Equity	<u>7,750</u>	<u>59,941</u>	<u>67,691</u>
Total Liabilities and Fund Equity	<u>\$ 42,608</u>	<u>\$ 59,941</u>	<u>\$ 102,549</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, 2017

	Special Revenue Fund	Debt Retirement Fund	Total Other Governmental Funds
	Lunch Fund	2015 School Building and Site Bonds Fund	
<u>Revenue</u>			
Local Sources	\$ 196,470	\$ 586,052	\$ 782,522
State Sources	51,041	0	51,041
Federal Sources	<u>358,082</u>	<u>0</u>	<u>358,082</u>
Total Revenue	<u>605,593</u>	<u>586,052</u>	<u>1,191,645</u>
<u>Expenditures</u>			
Current:			
Food Services	601,955	0	601,955
Debt Service:			
Principal Retirement	0	280,000	280,000
Interest and Fees on Long-Term Debt	<u>0</u>	<u>298,888</u>	<u>298,888</u>
Total Expenditures	<u>601,955</u>	<u>578,888</u>	<u>1,180,843</u>
Net Change in Fund Balances	3,638	7,164	10,802
Fund Balances - Beginning of Year	<u>4,112</u>	<u>52,777</u>	<u>56,889</u>
Fund Balances - End of Year	<u>\$ 7,750</u>	<u>\$ 59,941</u>	<u>\$ 67,691</u>

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> Amended Budget	<u>2017</u> Actual	<u>2016</u> Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 4,459,042	\$ 4,435,614	\$ 4,409,268
Tuition	3,194	1,270	4,383
Summer School Tuition	4,478	4,496	3,857
Community Education Tuition	0	2,493	0
Transportation Fees	48,905	50,366	53,013
Gate Receipts	54,451	54,450	66,983
Interest on Investments	23,541	24,337	8,722
Rents	3,741	3,741	3,741
Medicaid Fee for Service	37,860	38,359	34,761
Miscellaneous Local Sources	<u>31,227</u>	<u>31,291</u>	<u>40,528</u>
	<u>4,666,439</u>	<u>4,646,417</u>	<u>4,625,256</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,725,588	4,725,583	4,492,150
Isolated Districts	55,595	55,595	54,065
Special Education	259,940	259,939	252,019
At Risk	375,274	368,775	485,069
Technology Infrastructure	20,149	20,149	9,552
MPSERS UAAL Rate Stabilization	689,651	689,651	619,508
Other MPSERS State Aid	80,404	80,403	79,177
Miscellaneous State Sources	<u>27,769</u>	<u>28,364</u>	<u>9,536</u>
	<u>6,234,370</u>	<u>6,228,459</u>	<u>6,001,076</u>
<u>Federal Sources</u>			
ECIA Title I	264,064	263,837	338,192
ECIA Title II- Improving Teacher Quality	67,907	67,847	74,546
ECIA Title VI	24,770	24,770	23,546
Medicaid Outreach	1,000	918	1,171
Schools and Roads Grant Funds	<u>8,689</u>	<u>8,688</u>	<u>8,915</u>
	<u>366,430</u>	<u>366,060</u>	<u>446,370</u>
<u>Interdistrict Sources</u>			
Vocational Education	13,885	13,884	22,221
Services Provided to Other Public Schools	<u>9,437</u>	<u>9,436</u>	<u>29,623</u>
	<u>23,322</u>	<u>23,320</u>	<u>51,844</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	<u>10,185</u>	<u>10,185</u>	<u>0</u>
Total Revenue and Other Financing Sources	<u>\$ 11,300,746</u>	<u>\$ 11,274,441</u>	<u>\$ 11,124,546</u>



TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> <u>Amended</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,138,951	\$ 1,138,951	\$ 1,144,767
Employee Benefits	836,812	831,811	841,758
Purchased Services	40,926	40,926	39,517
Supplies, Materials and Other	<u>70,533</u>	<u>68,676</u>	<u>22,134</u>
	<u>2,087,222</u>	<u>2,080,364</u>	<u>2,048,176</u>
Junior High School			
Salaries	885,390	885,390	664,703
Employee Benefits	678,858	678,395	513,139
Purchased Services	44,856	42,516	26,416
Supplies, Materials and Other	<u>13,616</u>	<u>13,116</u>	<u>10,436</u>
	<u>1,622,720</u>	<u>1,619,417</u>	<u>1,214,694</u>
High School			
Salaries	982,849	985,189	1,283,150
Employee Benefits	676,891	672,114	896,786
Purchased Services	90,189	90,139	57,708
Supplies, Materials and Other	<u>77,560</u>	<u>77,059</u>	<u>31,504</u>
	<u>1,827,489</u>	<u>1,824,501</u>	<u>2,269,148</u>
Summer School			
Salaries	5,587	5,586	6,506
Employee Benefits	2,268	2,268	2,721
Supplies, Materials and Other	<u>10,175</u>	<u>10,174</u>	<u>0</u>
	<u>18,030</u>	<u>18,028</u>	<u>9,227</u>
Total Basic Programs	<u>5,555,461</u>	<u>5,542,310</u>	<u>5,541,245</u>
Added Needs:			
Special Education			
Salaries	419,722	419,721	451,778
Employee Benefits	276,186	275,974	275,990
Purchased Services	42,708	40,974	40,396
Supplies, Materials and Other	<u>45</u>	<u>3,517</u>	<u>0</u>
	<u>738,661</u>	<u>740,186</u>	<u>768,164</u>
Compensatory Education			
Salaries	176,190	176,190	216,873
Employee Benefits	<u>95,572</u>	<u>95,311</u>	<u>135,667</u>
	<u>271,762</u>	<u>271,501</u>	<u>352,540</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> <u>Amended</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 74,158	\$ 74,152	\$ 82,186
Employee Benefits	48,587	48,554	52,971
Purchased Services	135,687	135,687	113,036
Supplies, Materials and Other	<u>3,421</u>	<u>3,421</u>	<u>8,725</u>
	<u>261,853</u>	<u>261,814</u>	<u>256,918</u>
 Total Added Needs	 <u>1,272,276</u>	 <u>1,273,501</u>	 <u>1,377,622</u>
 Total Instruction	 <u>6,827,737</u>	 <u>6,815,811</u>	 <u>6,918,867</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	93,077	93,077	86,208
Employee Benefits	64,515	64,339	59,270
Purchased Services	175	175	75
Supplies, Materials and Other	<u>2,198</u>	<u>2,198</u>	<u>2,202</u>
	<u>159,965</u>	<u>159,789</u>	<u>147,755</u>
 Health Services			
Purchased Services	<u>5,916</u>	<u>5,226</u>	<u>2,958</u>
 Psychological Services			
Purchased Services	<u>8,825</u>	<u>8,230</u>	<u>2,765</u>
 Speech			
Salaries	64,326	64,326	64,171
Employee Benefits	46,196	46,142	45,238
Purchased Services	129	129	73
Supplies, Materials and Other	<u>159</u>	<u>159</u>	<u>0</u>
	<u>110,810</u>	<u>110,756</u>	<u>109,482</u>
 Social Work			
Salaries	126,848	126,848	123,610
Employee Benefits	81,983	81,895	83,178
Purchased Services	<u>0</u>	<u>0</u>	<u>69</u>
	<u>208,831</u>	<u>208,743</u>	<u>206,857</u>
 Total Pupil Services	 <u>494,347</u>	 <u>492,744</u>	 <u>469,817</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> <u>Amended</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff:			
Instructional Improvement			
Salaries	\$ 25,345	\$ 25,345	\$ 15,899
Employee Benefits	10,717	10,714	7,226
Purchased Services	<u>12,541</u>	<u>12,539</u>	<u>16,744</u>
	<u>48,603</u>	<u>48,598</u>	<u>39,869</u>
Library Services			
Salaries	28,216	28,216	35,380
Employee Benefits	14,612	14,608	19,442
Purchased Services	3,636	3,636	1,341
Supplies, Materials and Other	<u>5,674</u>	<u>5,674</u>	<u>4,202</u>
	<u>52,138</u>	<u>52,134</u>	<u>60,365</u>
Director of Instruction			
Salaries	18,000	19,250	20,500
Supplies, Materials and Other	<u>3,232</u>	<u>0</u>	<u>6,213</u>
	<u>21,232</u>	<u>19,250</u>	<u>26,713</u>
Total Instructional Staff	<u>121,973</u>	<u>119,982</u>	<u>126,947</u>
General Administration:			
Board of Education			
Salaries	5,500	5,370	5,530
Purchased Services	<u>42,564</u>	<u>43,132</u>	<u>40,198</u>
	<u>48,064</u>	<u>48,502</u>	<u>45,728</u>
Executive Administration			
Salaries	163,639	163,639	161,863
Employee Benefits	105,150	105,084	101,530
Purchased Services	43,709	40,521	30,577
Supplies, Materials and Other	<u>16,918</u>	<u>16,682</u>	<u>13,209</u>
	<u>329,416</u>	<u>325,926</u>	<u>307,179</u>
Total General Administration	<u>377,480</u>	<u>374,428</u>	<u>352,907</u>
School Administration:			
Office of the Principal			
Salaries	456,041	456,041	460,361
Employee Benefits	319,618	319,633	319,373
Purchased Services	6,508	6,508	4,445
Supplies, Materials and Other	<u>19,787</u>	<u>19,787</u>	<u>29,122</u>
	<u>801,954</u>	<u>801,969</u>	<u>813,301</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> Amended Budget	<u>2017</u> Actual	<u>2016</u> Actual
<u>Support Services (Continued)</u>			
School Administration: (Continued)			
Other Administration			
Purchased Services	\$ <u>          0</u>	\$ <u>      1,914</u>	\$ <u>      1,935</u>
Total School Administration	<u>      801,954</u>	<u>      803,883</u>	<u>      815,236</u>
Business:			
Fiscal Services			
Salaries	117,056	117,056	117,062
Employee Benefits	81,582	81,323	83,239
Purchased Services	29,155	29,155	29,030
Other Expenditures	<u>      13,773</u>	<u>              0</u>	<u>              0</u>
	<u>      241,566</u>	<u>      227,534</u>	<u>      229,331</u>
Operations and Maintenance:			
Salaries	273,028	272,983	272,258
Employee Benefits	220,320	220,211	210,569
Purchased Services	448,575	448,599	424,523
Supplies, Materials and Other	<u>      57,254</u>	<u>      56,389</u>	<u>      45,530</u>
	<u>      999,177</u>	<u>      998,182</u>	<u>      952,880</u>
Transportation:			
Salaries	208,087	208,002	208,346
Employee Benefits	141,477	141,340	139,183
Purchased Services	61,695	61,680	83,319
Supplies, Materials and Other	<u>      102,543</u>	<u>      101,111</u>	<u>      96,613</u>
	<u>      513,802</u>	<u>      512,133</u>	<u>      527,461</u>
Central Services:			
Salaries	18,738	18,738	18,738
Employee Benefits	12,625	12,622	12,082
Supplies, Materials and Other	<u>      4,929</u>	<u>      4,929</u>	<u>      5,850</u>
	<u>      36,292</u>	<u>      36,289</u>	<u>      36,670</u>
Technology:			
Salaries	54,201	54,051	53,556
Employee Benefits	31,770	31,728	27,676
Purchased Services	<u>      48,741</u>	<u>      48,290</u>	<u>      46,814</u>
	<u>      134,712</u>	<u>      134,069</u>	<u>      128,046</u>
Total Support Services	<u>      3,721,303</u>	<u>      3,699,244</u>	<u>      3,639,295</u>

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> <u>Amended</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	\$ 4,803	\$ 4,803	\$ 6,570
Employee Benefits	4,146	4,140	5,661
Purchased Services	<u>662</u>	<u>662</u>	<u>2,546</u>
Total Community Services	<u>9,611</u>	<u>9,605</u>	<u>14,777</u>
<u>Athletics</u>			
Salaries	24,113	24,113	26,535
Employee Benefits	11,088	11,084	12,024
Equipment and Supplies	309	0	292
Purchased Services	181,499	177,654	190,070
Other Expenditures	<u>28,298</u>	<u>28,607</u>	<u>37,118</u>
Total Athletics	<u>245,307</u>	<u>241,458</u>	<u>266,039</u>
<u>Capital Outlay</u>			
Instruction	67,672	62,131	52,957
Support Services	380,196	379,412	219,252
Athletics	<u>8,740</u>	<u>8,740</u>	<u>22,016</u>
Total Capital Outlay	<u>456,608</u>	<u>450,283</u>	<u>294,225</u>
Total Expenditures	<u>\$ 11,260,566</u>	<u>\$ 11,216,401</u>	<u>\$ 11,133,203</u>



*Stephenson & Company, P.C.*

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Robert J. Morand, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2017

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August 11, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements and have issued our report thereon dated August 11, 2017.

#### 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.



Board of Education  
Tawas Area Schools  
August 11, 2017  
Page Two

**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 & Company, P.C.



August 11, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

## **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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, 2017, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements. We issued our report thereon dated August 11, 2017, 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 the Uniform Guidance, 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 & Company, P.C.*

TAWAS AREA SCHOOLS  
losco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Tawas Area Schools.
2. No material weaknesses 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 the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unmodified opinion.
6. No 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, CFDA #84.010 and Water and Waste Loans and Grants, CFDA #10.760.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Tawas Area Schools does not qualify as a low-risk auditee.

Findings - Financial Statement Audit

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2017.

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, 2017.

TAWAS AREA SCHOOLS

Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

<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, 2016</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>
<u>U.S. Department of Agriculture</u>							
Passed through the Michigan Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance:							
Food Distribution							
55030 Entitlement Commodities	10.555	\$ 36,739	\$ 0	\$ 0	\$ 36,739	\$ 36,739	\$ 0
Cash Assistance:							
School Breakfast Program							
161970 2015-2016	10.553	83,600	75,391	0	8,209	8,209	0
171970 2016-2017		79,121	0	0	79,121	79,121	0
		<u>162,721</u>	<u>75,391</u>	<u>0</u>	<u>87,330</u>	<u>87,330</u>	<u>0</u>
National School Lunch Program							
Section 11 - Free and Reduced							
161960 2015-2016	10.555	241,679	216,380	0	25,300	25,300	0
171960 2016-2017		208,713	0	0	208,713	208,713	0
		<u>450,392</u>	<u>216,380</u>	<u>0</u>	<u>234,013</u>	<u>234,013</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>		<u>613,113</u>	<u>291,771</u>	<u>0</u>	<u>321,343</u>	<u>321,343</u>	<u>0</u>
Total Child Nutrition Cluster		<u>649,852</u>	<u>291,771</u>	<u>0</u>	<u>358,082</u>	<u>358,082</u>	<u>0</u>
Passed through Iosco County:							
Schools and Roads Grants Funds	10.665	8,688	0	0	8,688	8,688	0
Direct Award:							
Water and Waste Loans	10.760	184,000	0	0	184,000	184,000	0
Water and Waste Grants		149,000	37,787	37,787	54,213	92,000	0
		<u>333,000</u>	<u>37,787</u>	<u>37,787</u>	<u>238,213</u>	<u>276,000</u>	<u>0</u>
Total U.S. Department of Agriculture		<u>991,540</u>	<u>329,558</u>	<u>37,787</u>	<u>604,983</u>	<u>642,770</u>	<u>0</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2017

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, 2016	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2017
<u>U.S. Department of Education</u>							
Passed through the Michigan Department of Education:							
Title I - Grants to Local Educational Agencies							
161530 2015-2016	84.010	\$ 347,867	\$ 338,192	\$ 29,568	\$ 0	\$ 29,568	\$ 0
171530 2016-2017		324,540	0	0	260,772	231,113	29,659
		<u>672,407</u>	<u>338,192</u>	<u>29,568</u>	<u>260,772</u>	<u>260,681</u>	<u>29,659</u>
Title VI Part B, Subpart 2:							
Rural and Low-Income Grant							
170660 2016-2017	84.358B	<u>24,783</u>	<u>0</u>	<u>0</u>	<u>24,770</u>	<u>24,770</u>	<u>0</u>
Title II Part A:							
Improving Teacher Quality							
160520 2015-2016	84.367	83,908	74,546	4,486	3,065	7,551	0
170520 2016-2017		<u>77,607</u>	<u>0</u>	<u>0</u>	<u>67,847</u>	<u>61,834</u>	<u>6,013</u>
		<u>161,515</u>	<u>74,546</u>	<u>4,486</u>	<u>70,912</u>	<u>69,385</u>	<u>6,013</u>
Total U.S. Department of Education		<u>858,705</u>	<u>412,738</u>	<u>34,054</u>	<u>356,454</u>	<u>354,836</u>	<u>35,672</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	1,346	1,346	0	1,346	0
Medicaid Outreach Claims 2015-2016		<u>918</u>	<u>0</u>	<u>0</u>	<u>918</u>	<u>0</u>	<u>918</u>
		<u>2,264</u>	<u>1,346</u>	<u>1,346</u>	<u>918</u>	<u>1,346</u>	<u>918</u>
Total Federal Financial Awards		<u>\$ 1,852,509</u>	<u>\$ 743,642</u>	<u>\$ 73,187</u>	<u>\$ 962,355</u>	<u>\$ 998,952</u>	<u>\$ 36,590</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, 2017

Note 1 - Basis of Presentation

- A. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Tawas Area Schools under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Tawas Area Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Tawas Area Schools.

Note 2 - Summary of Significant Accounting Policies

- A. 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.
- B. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
- C. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
- D. 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.
- E. Expenditures include spoilage or pilferage.
- F. Tawas Area Schools did not elect to use a flat de minimis rate of 10% of modified total direct costs for their indirect cost rate.

Note 3 - Reconciliation to Financial Statements:

General Fund	\$ 366,060
Capital Projects Fund:	
Construction Fund	54,213
Special Revenue Fund:	
Lunch Fund	<u>358,082</u>
	778,355
Federal loan proceeds falling under the scope of this single audit	<u>184,000</u>
	<u>\$ 962,355</u>

Note 4 - Outstanding Loan Balances:

- A. Tawas Area Schools entered into a loan payable granted under the Water and Waste Loans program (CFDA 10.760). The loan was paid off during the current year and the outstanding loan balance as of June 30, 2017 was \$0.



# Tawas Area Schools

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

## Summary Schedule of Prior Year Audit Findings:

2016-001

### Financial Statement Preparation

**Finding:** Tawas Area Schools' personnel prepare financial information to assess the operations and financial condition of the District. However, the District relies on their Independent Audit Firm to assist in reporting the annual financial report in accordance with GAAP.

**Year of Initial Occurrence:** June 30, 2015

**Status:** No material adjusting journal entries were proposed during the current year audit, making the preparation of the financial statements simply a formatting process and no longer a material weakness or significant deficiency.

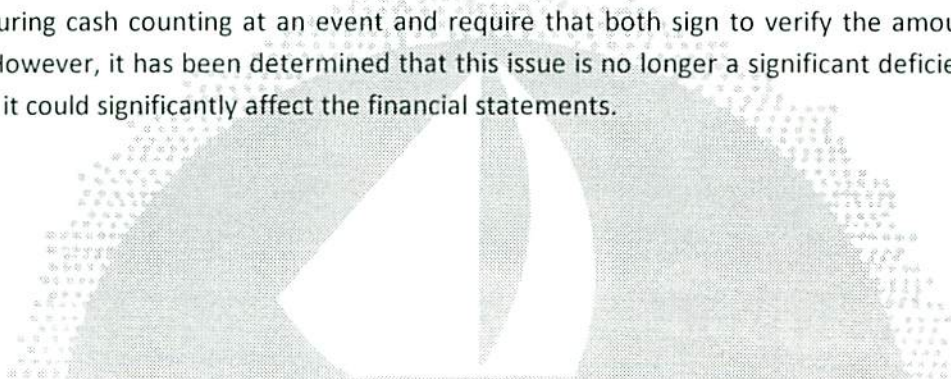
2016-002

### Lack of Sufficient Support for Activity Fund Transactions

**Finding:** Completeness of the deposits in the Activity and Athletic Funds could not be ensured. It was recommended that two individuals be present to verify that the money being taken in is complete, by signing the activity cash count sheets.

**Year of Initial Occurrence:** June 30, 2015

**Status:** This situation still exists. The Business office will continue to require two individuals to be present during cash counting at an event and require that both sign to verify the amount collected is correct. However, it has been determined that this issue is no longer a significant deficiency as it is not likely that it could significantly affect the financial statements.



**“A Tradition of Academic Excellence”**



*Stephenson & Company, P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA

August 11, 2017

Management and the Board of Education  
Tawas Area Schools  
245 W. M-55  
Tawas City, MI 48763

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, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 10, 2017. 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 August 4, 2017. 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 District, 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 & Company, P.C.*

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

### **Our Responsibilities under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and the Uniform Guidance**

As stated in our engagement letter dated July 10, 2017, 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 the Uniform Guidance.

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 the Uniform Guidance, 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) 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 July 10, 2017.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, Tawas Area Schools changed accounting policies related to tax abatements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 77, "Tax Abatement Disclosures", in 2017. In the current year, no related disclosures were required for Tawas Area Schools. The application of existing policies was not changed during 2017. 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 estimates affecting 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.

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

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

### **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. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to and accepted by management on August 11, 2017. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, 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 August 11, 2017.

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

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to 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 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 the Management's Discussion and Analysis, Budgetary Comparison Information, 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, 2017, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

**SEGREGATION OF DUTIES**

Internal controls are designed to safeguard assets and help to detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. During the audit we found that the completeness of activity fund and athletic fund deposits could not always be assured. Although management currently has good controls in place to ensure that each student activity event is supported by a completed activity control reports, with proper supporting documentation attached, and that each athletic event is supported by a completed gate receipt report, those controls were not consistently being implemented throughout the year. Controls are only effective when consistently implemented and followed up on. We recommend that management implement procedures to enforce current District policy.

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

**STATUS OF PRIOR YEAR COMMENTS:**

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

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls	X			
Student Activity Funds				X