



*Stephenson & Company, P.C.*

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TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2018

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August 24, 2018

## 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, 2018, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 2, Tawas Area Schools has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", as of June 30, 2018. Our opinion is not modified with respect to this matter.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and required pension and other postemployment benefit (OPEB) 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 24, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tawas Area Schools' 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, 2018.

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 recognized relative stability in governmental activities in the 2017-2018 school year. The General Fund, Lunch Fund and Debt Retirement Fund all realized increases to Fund Balance. The Construction Capital Projects Fund fund balance was reduced to \$0, due to finalizing the construction from prior year Construction Bonds. The Sinking Fund fund balance was reduced by \$252,566, due to ongoing Sinking Fund improvement projects. Enrollment of students was consistent with predictions and cost containment strategies were implemented to maintain efficiency and financial stability. The District will again face challenges in the 2018-2019 school year to continue to reach financial goals.

The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$7,776,767 (net position). Of this amount, \$(17,900,966) (unrestricted Net Position) is the result of the District's ongoing obligations to taxpayers, employees, students and creditors.

The District's total Net Position decreased by \$310,054 in the current year. This is primarily due to the contribution of the water main extension to the City of Tawas City, resulting in a \$276,000 capital contribution, which we consider a special item in the current year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,707,496, a decrease of \$223,948 in comparison with the prior year. Of this amount, \$2,534,447 (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 \$3,707,496 or 28% of the total expenditures of these operating funds.

The General Fund fund balance had an increase in the current year of \$181,758 due to increases in General Fund revenues that exceeded the related increases in expenditures.

The Sinking Fund fund balance decreased by \$252,566 in the current year due to the current year capital projects exceeding the property tax revenues.

The Other Governmental Funds fund balances decreased in the current year by \$153,140 due primarily to the Construction fund closing out in the current year resulting in a decrease of about \$205,000 offset by increases in the other funds due to revenues exceeding expenditures.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018

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, 2018

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 and Sinking Fund, which are both considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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 and OPEB 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 \$(7,776,767) at June 30, 2018. Of this amount, \$(17,900,996) 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  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018

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

	<u>Governmental Activities</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current Assets	\$ 5,195,649	\$ 5,081,341
Noncurrent Assets:		
Capital Assets - Net	<u>18,607,746</u>	<u>18,800,453</u>
Total Assets	<u>23,803,395</u>	<u>23,881,794</u>
Deferred Outflows of Resources	<u>3,936,186</u>	<u>2,662,991</u>
Current Liabilities	1,537,151	1,199,845
Noncurrent Liabilities	<u>31,961,859</u>	<u>32,242,223</u>
Total Liabilities	<u>33,499,010</u>	<u>33,442,068</u>
Deferred Inflows of Resources	<u>2,017,338</u>	<u>569,430</u>
<u>Net Position</u>		
Net Investment in Capital Assets	9,685,945	9,800,074
Restricted	438,284	880,035
Unrestricted (Deficit) (Restated)	<u>(17,900,996)</u>	<u>(18,146,822)</u>
Total Net Position (Restated)	<u>\$ (7,776,767)</u>	<u>\$ (7,466,713)</u>

The \$(17,900,996) 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 \$(17,900,996). This shortfall is a direct result of the implementation of GASB 68 in a prior year and the implementation of GASB 75 in the current year. See Note 8 and Note 9 of this report.

TABLE 2  
CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2018</u>	<u>Year Ended June 30, 2017</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 371,763	\$ 385,392
Operating Grants and Contributions	2,149,304	2,079,106
Capital Grants and Contributions	0	54,712
General Revenues:		
Current Property Taxes	5,336,408	5,261,019
State School Aid – Unrestricted	5,136,474	4,865,765
Investment Earnings	59,398	50,349
Gain (Loss) on Sale of Capital Assets	1,500	10,185
Miscellaneous	4,561	4,359
Special Item – Capital Contributions	<u>(276,000)</u>	<u>0</u>
Total Revenues	<u>12,783,408</u>	<u>12,710,887</u>



TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>Year Ended</u> <u>June 30, 2018</u>	<u>Year Ended</u> <u>June 30, 2017</u>
Functions/Program Expenses:		
Instruction	\$ 7,839,512	\$ 7,134,735
Support Services	4,028,072	3,714,724
Community Services	11,843	9,986
Athletics	256,901	248,145
Food Services	663,387	622,810
Interest on Long-Term Debt	<u>293,747</u>	<u>302,354</u>
Total Functions/Program Expenses	<u>13,093,462</u>	<u>12,032,754</u>
Change in Net Position	(310,054)	678,133
Beginning Net Position (Restated)	<u>(7,466,713)</u>	<u>(8,144,846)</u>
Ending Net Position (Restated)	<u><u>\$ (7,776,767)</u></u>	<u><u>\$ (7,466,713)</u></u>

Governmental activities decreased the District's net position by \$310,054.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$13,093,462. However, the amount that our taxpayers ultimately financed for these activities through the School District was only (\$5,336,408) because some of the cost was paid by those who benefited from the programs (\$371,763), by other governments and organizations who subsidized certain programs with grants and contributions (\$2,149,304), by unrestricted state school aid (\$5,136,474), gain on sale of capital assets (\$1,500), and by miscellaneous sources (\$4,561).

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, 2018, 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 \$11,726,408. The amount is above the original budget estimate of \$11,400,968 and below the final amended budget of \$11,771,690. 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 \$11,546,150, which is above the original budget estimate of \$11,387,582 and below the final budget estimate of \$11,611,073. 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 \$11,726,408 and total expenditures of \$11,546,150 with an ending fund balance of \$3,225,417.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018

**GOVERNMENTAL FUND EXPENDITURES**

Total governmental fund expenditures amounted to \$13,433,894. The governmental funds had a net loss in fund balance of \$223,948. The ending fund balance for all governmental funds was \$3,707,496 which represents 28% 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 2018, the District had \$30,140,335 invested in land and buildings, furniture and equipment, vehicles and buses, and software. Of this amount, \$11,532,589 in depreciation has been taken over the years. We currently have a net book value of \$18,607,746. Total additions for the year were \$1,037,718, of which, \$217,280 was construction in progress for the high school exterior façade project, \$281,839 was for the unit ventilator project which includes \$131,123 transferred from prior year construction in progress, \$21,600 was for roof replacement at the administration building, \$22,036 was for outdoor basketball courts, \$15,212 was for air conditioning units, \$38,647 was for classroom flooring replacement, \$85,038 was for window replacement, \$83,200 was for the electrical and storage shed, \$48,547 was for architectural and engineering cost, \$20,464 was for miscellaneous building and improvements related to the High school and middle school additions & renovations bond project, \$2,530 was for asbestos removal at the high school, \$3,940 was for restroom partitions, and \$197,385 was for two Blue Bird buses. Total disposals for the year were \$343,815, which consisted of transferring ownership of the water main extension to the City of Tawas City as a Capital Contribution of \$276,000, and the disposal of a bus, which was 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, 2018, the District had \$8,955,000 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, 2018, the District's Net Pension Liability amounted to \$17,092,050. 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 8 of this report.

**Net OPEB Liability**

At June 30, 2018, the District's Net OPEB Liability amounted to \$5,835,722. This constitutes their unfunded OPEB obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net OPEB Liability can be found in Note 9 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

When adopting our 2018/2019 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  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018

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  
Iosco County, Michigan

STATEMENT OF NET POSITION  
June 30, 2018

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 3,834,649
Receivables:	
Accounts, Net	3,238
Due From Other Governmental Units	1,305,516
Inventory:	
Supplies	1,453
Building Trades Lots	10,793
Prepaid Items	40,000
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 4)	367,805
Capital Assets, Net of Accumulated Depreciation (Note 4)	<u>18,239,941</u>
 Total Assets	 <u>23,803,395</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability (Note 8)	3,624,638
Deferred Amount on OPEB Expense Related to Net OPEB Liabilities (Note 9)	<u>311,548</u>
Total Deferred Outflows of Resources	<u>3,936,186</u>
<u>Liabilities</u>	
Accounts Payable	287,803
Due to Other Units	125,774
Interest Payable	48,998
Payroll Deductions and Withholdings	237,981
Accrued Expenses	12,236
Salaries Payable	678,979
Unearned Revenue - At Risk	145,380
Long-Term Liabilities	
Due Within One Year (Note 6)	309,511
Due in More Than One Year (Note 6)	8,724,576
Net Pension Liability (Note 8)	17,092,050
Net OPEB Liability (Note 9)	<u>5,835,722</u>
 Total Liabilities	 <u>33,499,010</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability (Note 8)	1,820,048
Deferred Amount on Net OPEB Liability (Note 9)	<u>197,290</u>
Total Deferred Inflows of Resources	<u>2,017,338</u>
<u>Net Position</u>	
Net Investment in Capital Assets	9,685,945
Restricted For:	
Debt Retirement	75,669
Capital Projects	362,615
Unrestricted (Deficit)	<u>(17,900,996)</u>
 Total Net Position	 <u>\$ (7,776,767)</u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Type Activities
Instruction	\$ 7,839,512	\$ 43,570	\$ 1,641,976	\$ 0	\$ (6,153,966)
Support Services	4,028,072	61,369	43,316	0	(3,923,387)
Community Services	11,843	3,293	0	0	(8,550)
Athletics	256,901	80,803	10,440	0	(165,658)
Food Services	663,387	182,728	453,572	0	(27,087)
Interest on Long-Term Debt	<u>293,747</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(293,747)</u>
Total	<u>\$ 13,093,462</u>	<u>\$ 371,763</u>	<u>\$ 2,149,304</u>	<u>\$ 0</u>	<u>(10,572,395)</u>
General Revenues:					
Property Taxes, Levied for General Purposes					4,500,465
Property Taxes, Levied for Debt Purposes					592,938
Property Taxes, Levied for Sinking Fund Purposes					243,005
State School Aid - Unrestricted					5,136,474
Investment Earnings					59,398
Gain (Loss) on Disposal of Capital Assets					1,500
Miscellaneous					4,561
Special Item - Capital Contributions (Note 1)					<u>(276,000)</u>
Total General Revenues and Special Item					<u>10,262,341</u>
Change in Net Position					(310,054)
Net Position - Beginning (Restated) (Note 18)					<u>(7,466,713)</u>
Net Position - Ending					<u>\$ (7,776,767)</u>

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



TAWAS AREA SCHOOLS  
Iosco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

	Capital Projects Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Sinking Fund		
<u>Assets</u>				
Cash and Cash Equivalents (Note 3)	\$ 3,111,661	\$ 579,895	\$ 143,093	\$ 3,834,649
Receivables:				
Accounts, Net	2,944	0	294	3,238
Due From Other Governmental Units	1,296,236	0	9,280	1,305,516
Inventory:				
Supplies	0	0	1,453	1,453
Building Trades Lots	10,793	0	0	10,793
Prepaid Items	40,000	0	0	40,000
Total Assets	<u>\$ 4,461,634</u>	<u>\$ 579,895</u>	<u>\$ 154,120</u>	<u>\$ 5,195,649</u>
<u>Liabilities</u>				
Accounts Payable	\$ 70,425	\$ 217,280	\$ 98	\$ 287,803
Due to Other Governmental Units	125,774	0	0	125,774
Payroll Deductions and Withholdings	226,772	0	11,209	237,981
Accrued Expenditures	12,236	0	0	12,236
Salaries Payable	655,630	0	23,349	678,979
Unearned Revenue - At Risk	145,380	0	0	145,380
Total Liabilities	<u>1,236,217</u>	<u>217,280</u>	<u>34,656</u>	<u>1,488,153</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	10,793	0	1,453	12,246
Prepaid Items	40,000	0	0	40,000
Restricted For:				
Debt Retirement	0	0	75,669	75,669
Capital Projects	0	362,615	0	362,615
Committed To:				
Bus Purchases	100,000	0	0	100,000
Technology Advancements	120,000	0	0	120,000
Textbooks	195,000	0	0	195,000
Assigned To:				
Food Service	0	0	42,342	42,342
2018/2019 Budgeted Expenditures	225,177	0	0	225,177
Unassigned	2,534,447	0	0	2,534,447
Total Fund Equity	<u>3,225,417</u>	<u>362,615</u>	<u>119,464</u>	<u>3,707,496</u>
Total Liabilities and Fund Equity	<u>\$ 4,461,634</u>	<u>\$ 579,895</u>	<u>\$ 154,120</u>	<u>\$ 5,195,649</u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2018

Total Governmental Fund Balances \$ 3,707,496

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:

Capital Asset Cost	\$ 30,140,335	
Capital Asset Accumulated Depreciation	<u>(11,532,589)</u>	
		18,607,746

Accrued interest on long-term liabilities (48,998)

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	3,624,638	
Deferred inflows of resources resulting from net pension liability	(1,820,048)	
Deferred outflows of resources from OPEB expenses subsequent to the measurement date of net OPEB liability	311,548	
Deferred inflows of resources resulting from net OPEB liability	<u>(197,290)</u>	
		1,918,848

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Bonds Payable (Net of Unamortized Discount)	(8,921,801)	
Compensated Absences Payable	(91,266)	
Incurred But Not Reported Benefit Claims	(21,020)	
Net Pension Liability	(17,092,050)	
Net OPEB Liability	<u>(5,835,722)</u>	
		<u>(31,961,859)</u>

Total Net Position - Governmental Activities \$ (7,776,767)

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, 2018

		Capital Projects Funds		
	General Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local Sources	\$ 4,744,048	\$ 250,997	\$ 777,559	\$ 5,772,604
State Sources	6,545,453	0	51,023	6,596,476
Federal Sources	416,575	0	402,549	819,124
Interdistrict Sources	20,332	0	0	20,332
Total Revenue	<u>11,726,408</u>	<u>250,997</u>	<u>1,231,131</u>	<u>13,208,536</u>
<u>Expenditures</u>				
Current:				
Instruction	7,056,294	0	0	7,056,294
Support Services	3,772,674	0	0	3,772,674
Community Services	10,687	0	0	10,687
Food Services	0	0	600,436	600,436
Athletics	232,764	0	0	232,764
Outgoing Transfers to Other Districts	9,373	0	0	9,373
Capital Outlay	464,358	503,563	205,647	1,173,568
Debt Service:				
Principal Retirement	0	0	285,000	285,000
Interest and Fees on Long-Term Debt	0	0	293,188	293,188
Total Expenditures	<u>11,546,150</u>	<u>503,563</u>	<u>1,384,271</u>	<u>13,433,984</u>
Excess of Revenue Over (Under)				
Expenditures	180,258	(252,566)	(153,140)	(225,448)
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	<u>1,500</u>	<u>0</u>	<u>0</u>	<u>1,500</u>
Net Change in Fund Balances	181,758	(252,566)	(153,140)	(223,948)
Fund Balances - Beginning of Year	<u>3,043,659</u>	<u>615,181</u>	<u>272,604</u>	<u>3,931,444</u>
Fund Balances - End of Year	<u>\$ 3,225,417</u>	<u>\$ 362,615</u>	<u>\$ 119,464</u>	<u>\$ 3,707,496</u>

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

TAWAS AREA SCHOOLS  
Iosco 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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	(223,948)
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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	\$ (823,302)	
Capital Outlays Reported in the Governmental Funds	906,595	
Capital Contribution Expense	<u>(276,000)</u>	
		(192,707)

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

Net Pension Liability	(317,046)	
Net OPEB Liability	319,672	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	1,272,939	
Deferred Inflows on Net Pension Liability	(1,250,618)	
Actual OPEB Contributions and the Cost of Benefits Earned, net of Employee Contributions	256	
Deferred Amount on Net OPEB Liability	<u>(197,290)</u>	
		(172,087)

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	285,000
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Governmental funds report the effect of discounts and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. 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:

Amortization of Deferred Bond Discounts	(1,509)
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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	950	
Compensated Absences	(5,142)	
Incurred But Not Reported Benefit Claims	<u>(611)</u>	
		<u>(4,803)</u>

Change in Net Position of Governmental Activities	\$	<u><u>(310,054)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2018

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ <u><u>172,776</u></u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u><u>172,776</u></u>

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



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

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.

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.

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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2018, 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, 2018 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.

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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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.

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, 2018.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

Q. 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.

R. Fund Balances

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

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balance (Continued)

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

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

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

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

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

S. 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.

T. 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, 2018, the foundation allowance was based on the average of pupil membership counts taken in October of 2017 and February of 2017.

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, 2017 - August, 2018. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. 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.

V. 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.

W. 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. During the fiscal year ended June 30, 2018, there was one special item. In the current year, Tawas Area Schools transferred ownership of the new water line extension to the City of Tawas City resulting in a Capital Contribution expense of \$276,000.

X. Economic Dependency

The School District received approximately 50% 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.

Y. 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.

Z. Budgetary Policies and Data

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

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

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. Budgetary Policies and Data (Continued)

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.

AA. Reclassifications

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2018, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 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 for postemployment benefits other than pensions.

For 2020, the School District will be required to implement GASB Statement No. 84 "Fiduciary Activities". GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

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:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ <u>3,834,649</u>	\$ <u>172,776</u>	\$ <u>4,007,425</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts)	\$ 316,205
Investments in Pooled Funds	3,690,620
Petty Cash and Cash on Hand	<u>600</u>
Total	\$ <u>4,007,425</u>

As of June 30, 2018, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u>3,690,620</u>	Daily

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2018, 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, 2018, \$78,874 of the School District's bank balance of \$328,874 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, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Construction in Progress	131,123	217,280	(131,123)	217,280
Subtotal	<u>281,648</u>	<u>217,280</u>	<u>(131,123)</u>	<u>367,805</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	23,622,520	623,053	0	24,245,573
Site Improvements	3,552,019	0	(276,000)	3,276,019
Furniture, Fixtures and Equipment	684,715	0	0	684,715
Vehicles and Buses	1,395,453	197,385	(67,815)	1,525,023
Software	41,200	0	0	41,200
Subtotal	<u>29,295,907</u>	<u>820,438</u>	<u>(343,815)</u>	<u>29,772,530</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(7,177,500)	(609,537)	0	(7,787,037)
Site Improvements	(2,193,973)	(73,942)	0	(2,267,915)
Furniture, Fixtures and Equipment	(471,297)	(42,260)	0	(513,557)
Vehicles and Buses	(926,092)	(89,323)	67,815	(947,600)
Software	(8,240)	(8,240)	0	(16,480)
Subtotal	<u>(10,777,102)</u>	<u>(823,302)</u>	<u>67,815</u>	<u>(11,532,589)</u>
Capital Assets Being Depreciated	<u>18,518,805</u>	<u>(2,864)</u>	<u>(276,000)</u>	<u>18,239,941</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 18,800,453</u>	<u>\$ 214,416</u>	<u>\$ (407,123)</u>	<u>\$ 18,607,746</u>

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

Governmental Activities

Instruction	\$ 504,253
Support Services	259,093
Community Services	762
Athletics	16,524
Food Services	<u>42,670</u>
	<u>\$ 823,302</u>

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, 2018.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
2015 School Building and Site Bonds:				
The bonds, dated March 5, 2015, which bear interest from 2.00% to 4.00%, are due serially each November 1 and May 1 through 2041				
	2015	\$ <u>8,955,000</u>	\$ <u>3,869,313</u>	\$ <u>12,824,313</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2018 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	325,000	257,063	582,063
2024 - 2028	1,775,000	1,130,813	2,905,813
2029 - 2033	2,075,000	836,181	2,911,181
2034 - 2038	2,455,000	462,381	2,917,381
2039 - 2041	<u>1,115,000</u>	<u>73,300</u>	<u>1,188,300</u>
Totals	\$ <u>8,955,000</u>	\$ <u>3,869,313</u>	\$ <u>12,824,313</u>

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 \$91,266 at June 30, 2018, of which \$0 was the estimated current portion.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

C. Health Insurance

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

The changes in the Health Insurance claims liability for the year ended June 30, 2018 are as follows:

	<u>6/30/2018</u>
Claims Liability, Beginning of Year	\$ 20,409
Claims and Damages Incurred	212,499
Claims Payments	<u>(211,888)</u>
Claims Liability, End of Year	\$ <u>21,020</u>

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds	\$ 9,240,000	\$ 0	\$ (285,000)	\$ 8,955,000	\$ 290,000
Deferred Amounts for Issuance					
Discount	<u>(34,708)</u>	<u>0</u>	<u>1,509</u>	<u>(33,199)</u>	<u>(1,509)</u>
Total Bonds Payable, Net	9,205,292	0	(283,491)	8,921,801	288,491
Compensated Absences	86,124	5,142 *	0	91,266	0
Incurred but not Reported					
Benefit Claims	<u>20,409</u>	<u>212,499</u>	<u>(211,888)</u>	<u>21,020</u>	<u>21,020</u>
Total Long-Term Liabilities	\$ <u>9,311,825</u>	\$ <u>217,641</u>	\$ <u>(495,379)</u>	\$ <u>9,034,087</u>	\$ <u>309,511</u>

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

The interest expense on long-term obligations for the year was \$293,747.

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, 2018

**NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS**

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

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

During the year ended June 30, 2018, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General/Athletics	\$ 227,776	\$ 232,764	\$ 4,988
General/Capital Outlay	\$ 454,910	\$ 464,358	\$ 9,448

**NOTE 8 - DEFINED BENEFIT PLAN**

**General Information About the Michigan Public School Employees' Retirement System (MPSERS) Pension Plan**

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's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

**General Information about the Michigan Public School Employees' Retirement System (MPERS) Pension Plan (Continued)**

Benefits Provided (Continued)

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**

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, 2017 valuation will be amortized over a 19 year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0	19.03
Pension Plus	3.0 - 6.4	18.40
Defined Contribution	0.0	15.27

Required contributions to the pension plan from the School District were \$1,547,023 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$17,092,050 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. 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, 2017, the School District's proportionate share percent was 0.06596%, which was a decrease of 0.00128% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$1,799,879. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 148,542	\$ 83,867
Change of assumptions	1,872,570	0
Net difference between projected and actual earnings on pension plan investments	0	817,112
Changes in proportion and differences between School District contributions and proportionate share of contributions	213,258	249,162
School District contributions subsequent to the measurement date	<u>1,390,268</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 3,624,638</u></b>	<b><u>\$ 1,150,141</u></b>

In addition to the deferred inflows of resources noted above, the District also has \$669,907 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$720,361 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, 2019. Total amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Deferred (Inflows) and Deferred Outflows of Resources by Year**

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$ 1,060,003
2019	606,284
2020	209,594
2021	<u>(71,291)</u>
	<b><u>\$ 1,804,590</u></b>

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.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

Actuarial Valuations and Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- λ Valuation Date: September 30, 2016
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 3.5%
- λ Investment Rate of Returns:
  - MIP and Basic Plans (Non-Hybrid): 7.5%
  - 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
- 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, 2017 is based on the results of an actuarial valuation date of September 30, 2016, 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: 4.5188
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/orsschools](http://www.michigan.gov/orsschools)).

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

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, 2017, 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%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% 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 7.5% (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

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 7.5% (7.0% for the Hybrid 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:

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

**NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)**

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)**

1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%
\$ 22,265,256	\$ 17,092,050	\$ 12,736,540

**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/orsschools](http://www.michigan.gov/orsschools).

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

At June 30, 2018, there were reported payables to MPERS of \$295,603, which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**General Information About the Michigan Public School Employees' Retirement System (MPERS) OPEB Plan**

**Plan Description**

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

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

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

**General Information about the Michigan Public School Employees' Retirement System (MPERS) Pension Plan (Continued)**

Benefits Provided

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

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

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

**Contributions**

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 19 year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**Contributions (Continued)**

<u>OPEB Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00	5.69

Required contributions to the OPEB plan from the School District were \$513,056 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$5,835,722 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.06590%.

For the year ended June 30, 2018, the School District recognized pension expense of \$390,394. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 62,133
Changes of assumptions	0	0
Net difference between projected and actual earnings on OPEB plan investments	0	135,157
Changes in proportion and differences between School District contributions and proportionate share of contributions	256	0
School District contributions subsequent to the measurement date	<u>311,292</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 311,548</u></b>	<b><u>\$ 197,290</u></b>



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

\$311,292 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Total amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

**Deferred (Inflows) and Deferred Outflows of Resources by Year  
(To Be Recognized in Future OPEB Expenses)**

Year Ended June 30	Amount
2018	\$ 263,673
2019	(47,619)
2020	(47,619)
2021	(47,619)
2022	(6,558)
	<u>\$ 114,258</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, 2016
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 3.5%
- λ Investment Rate of Return: 7.5%
- λ Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- λ Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. 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.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Actuarial Valuations and Assumptions (Continued)

$\lambda$  Other Assumptions:

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

*Notes:*

- Assumption changes as a result of an experience study for the 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, 2017 is based on the results of an actuarial valuation date of September 30, 2016, 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: 5.4744

$\lambda$  Recognition period for assets in years is 5.0000

- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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, 2017, are summarized in the following table:

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the School District's proportionate share of the net OPEB liability, calculated using a discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 6,835,317	\$ 5,835,722	\$ 4,987,379

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate  
(Continued)

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 4,942,072	\$ 5,835,722	\$ 6,850,399

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

NOTE 10 - DEFERRED COMPENSATION PLANS

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

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$19,239 for the year ended June 30, 2018.

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 \$186,992 for the year ended June 30, 2018. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 11 - 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%. The employer contribution changed to 7% as of October 1, 2017. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2018, the School District contributed \$34,407 on behalf of eligible employees. Employee contributions amounted to \$55,786 for eligible employees.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 12 - 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, 2018.

NOTE 13 - SINKING FUND

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

NOTE 14 - RISK MANAGEMENT

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

NOTE 15 - 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 16 - COMMITMENTS

The School District had commitments in the amount of \$879,918 outstanding at June 30, 2018. The first commitment was approved on April 9, 2018 for the Exterior Facade and Band Room Renovations awarded to various subcontractors through R.C. Hendrick & Son, Inc., at a total cost of \$899,130. The second commitment was approved on June 25, 2018 to purchase two Blue Bird 84-passenger buses through Holland Bus Company, at a cost of \$99,034 each. In addition, the Board also was approved on December 11, 2017, to have R.C. Hendrick & Son, Inc. provide construction management services for the 2018 summer construction projects at a sum of 2% of the actual construction projects total.

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Contractual Commitment at June 30, 2018</u>	<u>Contract Payable at June 30, 2018</u>
Exterior Facade & Band Room Renovations	899,130	681,850	217,280
Bus Purchases	198,068	198,068	0
	<u>\$ 1,097,198</u>	<u>\$ 879,918</u>	<u>\$ 217,280</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

NOTE 17 - 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, 2018, 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, 2018, 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 with no material financial impact on the School District.

NOTE 18 - PRIOR PERIOD ADJUSTMENT

The June 30, 2017 financial statements have been restated for the following adjustment:

GASB Statement No. 75 requires governments providing postemployment benefits other than pensions (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB. Therefore, a prior period adjustment was made to record the beginning Net OPEB Liability, net of the related Deferred Inflows and Outflows, in the Governmental Activities Statement of Net Position, for \$5,844,102.

	<u>Governmental Activities</u>
Net Position - Beginning	\$ (1,622,611)
Adjustment for GASB 75 Implementation	<u>(5,844,102)</u>
Net Position - Beginning (Restated)	<u><u>\$ (7,466,713)</u></u>

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>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>
School District's proportion of net pension liability (%)	0.06596%		0.06724%		0.06660%		0.06513%
School District's proportionate share of net pension liability	\$ 17,092,050	\$	16,775,004	\$	16,266,931	\$	14,345,511
School District's covered-employee payroll	\$ 5,446,872	\$	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	313.80%		294.58%		292.98%		256.85%
Plan fiduciary net position as a percentage of total pension liability	64.21%		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 2017.

**Changes of assumptions:** There were no changes of benefit assumptions in 2017.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,655,635	\$ 1,540,519	\$ 1,529,575	\$ 1,261,049
Contributions in relation to statutorily required contributions*	<u>1,655,635</u>	<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>	\$ <u>0</u>
School District's covered-employee payroll	\$ 5,486,797	\$ 5,432,492	\$ 5,486,840	\$ 5,607,009
Contributions as a percentage of covered-employee payroll	30.17%	28.36%	27.88%	22.49%

\*Contributions in relation to statutorily required pension 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 Pension Contributions:

**Changes of benefit terms:** There were no changes of benefit terms in 2017.

**Changes of assumptions:** There were no changes of benefit assumptions in 2017.

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

	<u>2018</u>
School District's proportion of net OPEB liability (%)	0.06590%
School District's proportionate share of net OPEB liability	\$ 5,835,722
School District's covered-employee payroll (OPEB)	\$ 5,446,872
School District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	107.14%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

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

**Changes of benefit terms:** There were no changes of benefit terms in 2017.

**Changes of assumptions:** There were no changes of benefit assumptions in 2017.

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

	<u>2018</u>
Statutorily required OPEB contributions	\$ 394,126
OPEB contributions in relation to statutorily required contributions*	<u>394,126</u>
Contribution deficiency (excess)	<u><u>\$ 0</u></u>
 School District's covered-employee payroll (OPEB)	 \$ 5,486,797
 OPEB contributions as a percentage of covered-employee payroll	 7.18%

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

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

**Changes of benefit terms:** There were no changes of benefit terms in 2017.

**Changes of assumptions:** There were no changes of benefit assumptions in 2017.

TAWAS AREA SCHOOLS  
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STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 4,669,144	\$ 4,745,926	\$ 4,744,048	\$ (1,878)
State Sources	6,355,235	6,586,011	6,545,453	(40,558)
Federal Sources	355,152	419,419	416,575	(2,844)
Interdistrict Sources	21,437	20,334	20,332	(2)
Total Revenue	<u>11,400,968</u>	<u>11,771,690</u>	<u>11,726,408</u>	<u>(45,282)</u>
<u>Expenditures</u>				
Current:				
Instruction	6,945,758	7,125,611	7,056,294	69,317
Support Services	3,803,525	3,782,706	3,772,674	10,032
Community Services	9,285	10,697	10,687	10
Athletics	254,991	227,776	232,764	(4,988)
Outgoing Transfers to Other Districts	0	9,373	9,373	0
Capital Outlay	374,023	454,910	464,358	(9,448)
Total Expenditures	<u>11,387,582</u>	<u>11,611,073</u>	<u>11,546,150</u>	<u>64,923</u>
Excess of Revenue Over (Under) Expenditures	<u>13,386</u>	<u>160,617</u>	<u>180,258</u>	<u>19,641</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	1,500	1,500	0
Operating Transfers Out	(20,000)	0	0	0
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>1,500</u>	<u>1,500</u>	<u>0</u>
Net Change in Fund Balances	(6,614)	162,117	181,758	19,641
Fund Balances - Beginning of Year	<u>3,043,659</u>	<u>3,043,659</u>	<u>3,043,659</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 3,037,045</u>	<u>\$ 3,205,776</u>	<u>\$ 3,225,417</u>	<u>\$ 19,641</u>

#### OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
June 30, 2018

	Special Revenue Fund	Debt Retirement Fund	Capital Projects Fund	
	Lunch Fund	2015 School Building and Site Bonds Fund	Construction Fund	Total Other Governmental Funds
<u>Assets</u>				
Cash and Cash Equivalents	\$ 67,424	\$ 75,669	\$ 0	\$ 143,093
Receivables:				
Accounts, Net	294	0	0	294
Due From Other Governmental Units	9,280	0	0	9,280
Inventory:				
Supplies	<u>1,453</u>	<u>0</u>	<u>0</u>	<u>1,453</u>
Total Assets	<u>\$ 78,451</u>	<u>\$ 75,669</u>	<u>\$ 0</u>	<u>\$ 154,120</u>
<u>Liabilities</u>				
Accounts Payable	\$ 98	\$ 0	\$ 0	\$ 98
Payroll Deductions and Withholdings	11,209	0	0	11,209
Salaries Payable	<u>23,349</u>	<u>0</u>	<u>0</u>	<u>23,349</u>
Total Liabilities	<u>34,656</u>	<u>0</u>	<u>0</u>	<u>34,656</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	1,453	0	0	1,453
Restricted For:				
Debt Retirement	0	75,669	0	75,669
Assigned To:				
Food Service	<u>42,342</u>	<u>0</u>	<u>0</u>	<u>42,342</u>
Total Fund Equity	<u>43,795</u>	<u>75,669</u>	<u>0</u>	<u>119,464</u>
Total Liabilities and Fund Equity	<u>\$ 78,451</u>	<u>\$ 75,669</u>	<u>\$ 0</u>	<u>\$ 154,120</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

	Special Revenue Fund	Debt Retirement Fund	Capital Projects Fund	
	<u>Lunch Fund</u>	2015 School Building and Site Bonds Fund	Construction Fund	Total Other Governmental Funds
<u>Revenue</u>				
Local Sources	\$ 182,909	\$ 593,916	\$ 734	\$ 777,559
State Sources	51,023	0	0	51,023
Federal Sources	402,549	0	0	402,549
Total Revenue	<u>636,481</u>	<u>593,916</u>	<u>734</u>	<u>1,231,131</u>
<u>Expenditures</u>				
Current:				
Food Services	600,436	0	0	600,436
Capital Outlay	0	0	205,647	205,647
Debt Service:				
Principal Retirement	0	285,000	0	285,000
Interest and Fees on Long-Term Debt	0	293,188	0	293,188
Total Expenditures	<u>600,436</u>	<u>578,188</u>	<u>205,647</u>	<u>1,384,271</u>
Net Change in Fund Balances	36,045	15,728	(204,913)	(153,140)
Fund Balances - Beginning of Year	<u>7,750</u>	<u>59,941</u>	<u>204,913</u>	<u>272,604</u>
Fund Balances - End of Year	<u>\$ 43,795</u>	<u>\$ 75,669</u>	<u>\$ 0</u>	<u>\$ 119,464</u>



INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF REVENUE COMPARED TO BUDGET  
For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

	2018 Amended Budget	2018 Actual	2017 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 4,512,335	\$ 4,500,465	\$ 4,435,614
Tuition	3,293	3,293	1,270
Summer School Tuition	3,950	3,820	4,496
Community Education Tuition	0	0	2,493
Transportation Fees	51,266	51,403	50,366
Gate Receipts	48,073	48,072	54,450
Interest on Investments	49,786	49,513	24,337
Rental Income	3,741	3,741	3,741
Booster Donations	0	10,440	0
Medicaid Fee for Service	39,751	39,750	38,359
Miscellaneous Local Sources	<u>33,731</u>	<u>33,551</u>	<u>31,291</u>
	<u>4,745,926</u>	<u>4,744,048</u>	<u>4,646,417</u>
<u>State Sources</u>			
State Aid Foundation Allowance	5,018,246	5,017,135	4,725,583
Isolated Districts	5,001	0	55,595
Special Education	248,823	248,823	259,939
At Risk	366,618	366,599	368,775
Technology Infrastructure	0	0	20,149
MPSERS UAAL Rate Stabilization	669,907	648,054	689,651
Other MPSERS State Aid	248,282	248,280	80,403
Miscellaneous State Sources	<u>29,134</u>	<u>16,562</u>	<u>28,364</u>
	<u>6,586,011</u>	<u>6,545,453</u>	<u>6,228,459</u>
<u>Federal Sources</u>			
Title I Part A	322,133	320,052	263,837
Title II Part A	58,348	57,586	67,847
Title V Part B	20,344	20,344	0
Title IV Part A	8,744	8,744	24,770
Medicaid Outreach	771	770	918
Schools and Roads Grant Funds	<u>9,079</u>	<u>9,079</u>	<u>8,688</u>
	<u>419,419</u>	<u>416,575</u>	<u>366,060</u>
<u>Interdistrict Sources</u>			
Vocational Education	6,344	6,344	13,884
Services Provided to Other Public Schools	9,967	9,966	9,436
Improvement of Instruction	<u>4,023</u>	<u>4,022</u>	<u>0</u>
	<u>20,334</u>	<u>20,332</u>	<u>23,320</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	<u>1,500</u>	<u>1,500</u>	<u>10,185</u>
Total Revenue and Other Financing Sources	<u>\$ 11,773,190</u>	<u>\$ 11,727,908</u>	<u>\$ 11,274,441</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

	2018 Amended Budget	2018 Actual	2017 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,111,505	\$ 1,111,455	\$ 1,138,951
Employee Benefits	857,106	835,536	831,811
Purchased Services	53,437	56,352	40,926
Supplies, Materials and Other	<u>37,194</u>	<u>37,118</u>	<u>68,676</u>
	<u>2,059,242</u>	<u>2,040,461</u>	<u>2,080,364</u>
Junior High School			
Salaries	920,437	920,436	885,390
Employee Benefits	735,177	710,927	678,395
Purchased Services	35,221	35,465	42,516
Supplies, Materials and Other	<u>20,612</u>	<u>20,272</u>	<u>13,116</u>
	<u>1,711,447</u>	<u>1,687,100</u>	<u>1,619,417</u>
High School			
Salaries	1,071,840	1,071,837	985,189
Employee Benefits	769,209	741,337	672,114
Purchased Services	64,434	64,544	90,139
Supplies, Materials and Other	<u>65,916</u>	<u>65,963</u>	<u>77,059</u>
	<u>1,971,399</u>	<u>1,943,681</u>	<u>1,824,501</u>
Summer School			
Salaries	4,800	11,850	5,586
Employee Benefits	5,923	5,207	2,268
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>10,174</u>
	<u>10,723</u>	<u>17,057</u>	<u>18,028</u>
Total Basic Programs	<u>5,752,811</u>	<u>5,688,299</u>	<u>5,542,310</u>
Added Needs:			
Added Needs			
Purchased Services	<u>3,000</u>	<u>3,000</u>	<u>0</u>
Special Education			
Salaries	423,002	422,999	419,721
Employee Benefits	284,253	284,233	275,974
Purchased Services	41,105	41,101	40,974
Supplies, Materials and Other	<u>0</u>	<u>3,637</u>	<u>3,517</u>
	<u>748,360</u>	<u>751,970</u>	<u>740,186</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

	2018 Amended Budget	2018 Actual	2017 Actual
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Compensatory Education			
Salaries	\$ 200,033	\$ 191,632	\$ 176,190
Employee Benefits	105,966	105,963	95,311
Purchased Services	1,141	1,141	0
Supplies, Materials and Other	<u>21,163</u>	<u>21,162</u>	<u>0</u>
	<u>328,303</u>	<u>319,898</u>	<u>271,501</u>
 Vocational Education			
Salaries	49,225	49,220	74,152
Employee Benefits	31,119	31,114	48,554
Purchased Services	210,977	210,977	135,687
Supplies, Materials and Other	<u>1,816</u>	<u>1,816</u>	<u>3,421</u>
	<u>293,137</u>	<u>293,127</u>	<u>261,814</u>
 Total Added Needs	<u>1,372,800</u>	<u>1,367,995</u>	<u>1,273,501</u>
 Total Instruction	<u>7,125,611</u>	<u>7,056,294</u>	<u>6,815,811</u>
 <u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	91,559	92,528	93,077
Employee Benefits	64,162	64,586	64,339
Purchased Services	0	0	175
Supplies, Materials and Other	<u>2,032</u>	<u>2,032</u>	<u>2,198</u>
	<u>157,753</u>	<u>159,146</u>	<u>159,789</u>
 Health Services			
Purchased Services	<u>4,664</u>	<u>4,717</u>	<u>5,226</u>
 Psychological Services			
Purchased Services	<u>16,505</u>	<u>16,505</u>	<u>8,230</u>
 Speech			
Salaries	64,372	64,371	64,326
Employee Benefits	47,764	47,756	46,142
Purchased Services	130	129	129
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>159</u>
	<u>112,266</u>	<u>112,256</u>	<u>110,756</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

	2018 Amended Budget	2018 Actual	2017 Actual
<u>Support Services</u> (Continued)			
Pupil Services: (Continued)			
Social Work			
Salaries	\$ 94,002	\$ 93,999	\$ 126,848
Employee Benefits	65,594	65,576	81,895
Purchased Services	100	100	0
	<u>159,696</u>	<u>159,675</u>	<u>208,743</u>
 Total Pupil Services	 <u>450,884</u>	 <u>452,299</u>	 <u>492,744</u>
 Instructional Staff:			
Instructional Improvement			
Salaries	9,690	9,690	25,345
Employee Benefits	5,677	5,677	10,714
Purchased Services	43,183	42,423	12,539
	<u>58,550</u>	<u>57,790</u>	<u>48,598</u>
 Library Services			
Salaries	28,789	28,745	28,216
Employee Benefits	14,087	14,060	14,608
Purchased Services	582	581	3,636
Supplies, Materials and Other	7,617	7,616	5,674
	<u>51,075</u>	<u>51,002</u>	<u>52,134</u>
 Director of Instruction			
Salaries	358	357	19,250
Purchased Services	711	745	0
Supplies, Materials and Other	3,838	0	0
	<u>4,907</u>	<u>1,102</u>	<u>19,250</u>
 Total Instructional Staff	 <u>114,532</u>	 <u>109,894</u>	 <u>119,982</u>
 General Administration:			
Board of Education			
Salaries	5,550	5,520	5,370
Employee Benefits	602	344	0
Purchased Services	35,631	34,853	43,132
	<u>41,783</u>	<u>40,717</u>	<u>48,502</u>
 Executive Administration			
Salaries	164,898	164,898	163,639
Employee Benefits	113,613	113,598	105,084
Purchased Services	29,491	30,001	40,521
Supplies, Materials and Other	18,836	18,694	16,682
	<u>326,838</u>	<u>327,191</u>	<u>325,926</u>
 Total General Administration	 <u>368,621</u>	 <u>367,908</u>	 <u>374,428</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

	2018 Amended Budget	2018 Actual	2017 Actual
<u>Support Services (Continued)</u>			
School Administration:			
Office of the Principal			
Salaries	\$ 449,388	\$ 449,381	\$ 456,041
Employee Benefits	327,346	327,338	319,633
Purchased Services	7,562	7,560	6,508
Supplies, Materials and Other	<u>22,500</u>	<u>22,498</u>	<u>19,787</u>
	<u>806,796</u>	<u>806,777</u>	<u>801,969</u>
Other Administration			
Purchased Services	<u>1,914</u>	<u>1,914</u>	<u>1,914</u>
Total School Administration	<u>808,710</u>	<u>808,691</u>	<u>803,883</u>
Business:			
Fiscal Services			
Salaries	117,075	117,075	117,056
Employee Benefits	84,115	84,114	81,323
Purchased Services	29,122	29,121	29,155
Other Expenditures	<u>11,870</u>	<u>0</u>	<u>0</u>
	<u>242,182</u>	<u>230,310</u>	<u>227,534</u>
Operations and Maintenance:			
Salaries	273,332	273,331	272,983
Employee Benefits	217,236	217,944	220,211
Purchased Services	517,135	524,083	448,599
Supplies, Materials and Other	<u>79,454</u>	<u>79,115</u>	<u>56,389</u>
	<u>1,087,157</u>	<u>1,094,473</u>	<u>998,182</u>
Transportation:			
Salaries	206,589	206,482	208,002
Employee Benefits	147,088	146,705	141,340
Purchased Services	66,795	63,876	61,680
Supplies, Materials and Other	<u>110,818</u>	<u>111,058</u>	<u>101,111</u>
	<u>531,290</u>	<u>528,121</u>	<u>512,133</u>
Central Services:			
Salaries	18,738	18,738	18,738
Employee Benefits	13,326	13,337	12,622
Supplies, Materials and Other	<u>2,410</u>	<u>2,409</u>	<u>4,929</u>
	<u>34,474</u>	<u>34,484</u>	<u>36,289</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

	2018 Amended Budget	2018 Actual	2017 Actual
<u>Support Services</u> (Continued)			
Technology:			
Salaries	\$ 64,558	\$ 65,357	\$ 54,051
Employee Benefits	51,339	51,691	31,728
Purchased Services	<u>28,959</u>	<u>29,446</u>	<u>48,290</u>
	<u>144,856</u>	<u>146,494</u>	<u>134,069</u>
Total Support Services	<u>3,782,706</u>	<u>3,772,674</u>	<u>3,699,244</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	5,587	5,587	4,803
Employee Benefits	2,648	2,639	4,140
Purchased Services	2,109	2,109	662
Supplies, Materials and Other	<u>353</u>	<u>352</u>	<u>0</u>
Total Community Services	<u>10,697</u>	<u>10,687</u>	<u>9,605</u>
<u>Athletics</u>			
Salaries	21,976	21,975	24,113
Employee Benefits	10,297	10,294	11,084
Equipment and Supplies	519	519	0
Purchased Services	174,467	179,464	177,654
Other Expenditures	<u>20,517</u>	<u>20,512</u>	<u>28,607</u>
Total Athletics	<u>227,776</u>	<u>232,764</u>	<u>241,458</u>
<u>Outgoing Transfers to Other Districts</u>			
Vocational Education	<u>9,373</u>	<u>9,373</u>	<u>0</u>
<u>Capital Outlay</u>			
Instruction	46,070	46,068	62,131
Support Services	389,891	388,902	379,412
Athletics	<u>18,949</u>	<u>29,388</u>	<u>8,740</u>
Total Capital Outlay	<u>454,910</u>	<u>464,358</u>	<u>450,283</u>
Total Expenditures	<u>\$ 11,611,073</u>	<u>\$ 11,546,150</u>	<u>\$ 11,216,401</u>



# *Stephenson & Company, P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
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Cynthia R. Scott, CPA, CFE

August 24, 2018

Management and the Board  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 17, 2018. 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 15, 2018. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Very truly yours,

*Stephenson & 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 17, 2018, 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 17, 2018.

#### **Significant Audit Findings**

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

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, Tawas Area Schools changed accounting policies related to Other Post-Employment Benefits by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, "Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions", in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting Tawas Area Schools' financial statements were:

Management's estimates of the Net Pension Liability and the Net OPEB Liability are based on the actuarial valuations audited by the Auditor General. We evaluated the key factors and assumptions used to develop the Net Pension Liability and the Net OPEB Liability in determining that they are 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. Management has determined the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements as a whole, and material misstatements provided to management on August 15, 2018 were corrected by management.

#### **Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated August 24, 2018.

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

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

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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Tawas Area Schools' 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 and OPEB 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, 2018, 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 a significant deficiency or a material weakness, or other matter that is an opportunity for strengthening internal controls and operating efficiency.

### FINANCIAL STATEMENT PREPARATION CONTROLS

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

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>
Athletic / Student Activity Funds			X	