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Certified Public Accountants & Consultants

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TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2014

**AUDITORS' REPORT**

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August 8, 2014

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 the Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2014, 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.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Tawas Area Schools, Iosco County, Michigan, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 8, 2014, included in the Single Audit Report issued under a separate cover, on our consideration of the Tawas Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tawas Area Schools' internal control over financial reporting and compliance.

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

# Tawas Area Schools

245 West M-55 • Tawas City, MI 48763  
Donald S. Vernon, 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, 2014.

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

## FINANCIAL HIGHLIGHTS

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

The District realized relative stability in all governmental activities for the 2013/2014 school year. Enrollment of students was fairly consistent with predictions. The cost containment strategies implemented by Administration offset the lack of increased revenues in the District. The state's continued economic struggle does not promote financial confidence. Our ability to reach our financial goals and to maintain an adequate fund balance will again present an ongoing challenge.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$12,014,709 (net position). Of this amount, \$2,807,285 (unrestricted Net Position) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total Net Position increased by \$174,148. This represents decreases in ongoing revenues combined with increases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,449,447, a decrease of \$169,843 in comparison with the prior year. Of this amount, \$1,952,447 (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, Sinking Fund, Debt Retirement Fund, and Food Service Fund) was \$3,449,447 or 29% of the total expenditures of these operating funds.

The General Fund fund balance had a decrease in the current year of \$298,592 due to decreases in General Fund revenues that exceeded the related decreases in expenditures.

The Sinking Fund fund balance increased by \$141,763 in the current year due to decreased expenditures relating to parking lot improvements at the High School and Clara Bolen Elementary in the prior year and only the Clara Bolen Elementary Security Entrance project being done in the current year.

The Lunch Fund fund balance decreased by \$10,594 due primarily to a continued decrease in student participation in school lunch as a result of the healthier menu standards enforced in the prior year.

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2014

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2014

Governmental Funds (Continued)

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

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

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

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

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

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

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

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School District's Net Position was \$12,014,709 at June 30, 2014. Of this amount, \$2,807,285 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. Our analysis below focuses on the net position (Table 1) and the change in net position (Table 2) of the School District's governmental activities.

TABLE 1  
NET POSITION

	Governmental Activities	
	June 30, 2014	June 30, 2013
Current Assets	\$ 4,432,158	\$ 4,542,588
Noncurrent Assets:		
Capital Assets - Net	9,258,729	9,451,213
Total Assets	13,690,887	13,993,801
Current Liabilities	986,071	929,763
Noncurrent Liabilities	690,107	1,223,477
Total Liabilities	1,676,178	2,153,240
<u>Net Position</u>		
Net Investment in Capital Assets	8,704,678	8,364,568
Restricted	502,746	363,403
Unrestricted	2,807,285	3,112,590
Total Net Position	\$ 12,014,709	\$ 11,840,561

The \$2,807,285 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 (compensated absences for example); we would have \$2,807,285 left.

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2014	Year Ended June 30, 2013
Revenue:		
Program Revenue:		
Charges for Services	\$ 329,505	\$ 343,809
Operating Grants and Contributions	1,618,773	1,707,472
General Revenue:		
Current Property Taxes	5,142,074	5,212,691
State School Aid – Unrestricted	4,545,681	4,558,881
Investment Earnings	1,674	2,885
Gain (Loss) on Sale of Capital Assets	0	23,581
Miscellaneous	7,584	4,840
Total Revenue	11,645,291	11,854,159

TAWAS AREA SCHOOLS  
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended	Year Ended
	June 30, 2014	June 30, 2013
Functions/Program Expenses:		
Instruction	\$ 6,777,586	\$ 6,845,739
Support Services	3,779,970	3,664,567
Community Services	9,806	12,162
Athletics	278,466	264,626
Food Services	581,974	560,658
Interest on Long-Term Debt	43,341	60,963
Total Functions/Program Expenses	11,471,143	11,408,715
Change in Net Position	174,148	445,444
Beginning Net Position (Restated)	11,840,561	11,395,117
Ending Net Position	\$ 12,014,709	\$ 11,840,561

Governmental activities increased the District's net position by \$174,148.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$11,471,143. However, the amount that our taxpayers ultimately financed for these activities through the School District was only (\$5,142,074) because some of the cost was paid by those who benefited from the programs (\$329,505), by other governments and organizations who subsidized certain programs with grants and contributions (\$1,618,773), by unrestricted state school aid (\$4,545,681), and by miscellaneous sources (\$9,258).

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, 2014, the District amended the budgets of these governmental funds a couple of times, due to changes in funding sources.

General Fund

The general fund actual revenue was \$10,296,951. The amount is below the original budget estimate of \$10,373,058 and above the final amended budget of \$10,239,609. The variance between the actual revenues, the original budget and the final budget was mostly the result of an unanticipated capital outlay donation at year-end of \$42,350.

The actual expenditures of the general fund were \$10,570,543, which is below the original budget estimate of \$10,623,294 and above the final amended budget of \$10,504,866. The variance between the actual expenditures, the original budget and the final budget was mostly the result of an unanticipated capital outlay donation related to the concession stand project at year-end of \$42,350, as well as various other fluctuations in other functions.

The General Fund had total revenues of \$10,296,951 and total expenditures of \$10,570,543 with an ending fund balance of \$2,944,140.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2014

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$11,815,134. The governmental funds had a net loss in fund balance of \$169,843. The ending fund balance for all governmental funds was \$3,449,447 which represents 29% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**

At the end of fiscal year 2014, the District had \$19,558,145 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, \$10,299,416 in depreciation has been taken over the years. We currently have a net book value of \$9,258,729. Total additions for the year were \$347,498, of which, \$116,392 was a transfer from prior year Construction in Progress and the remaining \$231,106 was made up of a school bus, the remaining portion of the concession stand, and a security entrance for Clara Bolen Elementary. There were no disposals in the current year.

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, 2014, the District had \$560,000 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Even though the State did not pass the 2014/2015 budget prior to Tawas Area Schools adopting our 2014/2015 budget, we still planned our financial future without as much speculation and assumption as in years past. We took a conservative approach to revenue predictions while preparing our budget. Amendments will be made in the fall to adjust to the States promise of School Aid funds for the upcoming school year. Student enrollment for budgeting purposes was estimated based on predictions and enrollment history. During the 2014/2015 school year Tawas Area Schools will implement the requirements to continue to receive the categorical "Best Practices" revenue. All required information will be provided to the Michigan Department of Education proving our eligibility for the additional funding.

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, 2014

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 3,126,423
Receivables:	
Accounts, Net	7,913
Due From Other Governmental Units	1,244,847
Inventory: (Note 1)	
Supplies	2,182
Building Trades Lots	10,793
Prepaid Expenses	40,000
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 4)	150,525
Capital Assets Net of Accumulated Depreciation (Note 4)	<u>9,108,204</u>
 Total Assets	 <u>13,690,887</u>
<u>Liabilities</u>	
Accounts Payable	15,305
Due to Other Units	128,294
Interest Payable	3,360
Payroll Deductions and Withholdings	183,179
Accrued Expenses	45,353
Salaries Payable	461,723
Unearned Revenue	148,857
Long-Term Liabilities (Note 6)	
Due within one year	659,607
Due in more than one year	<u>30,500</u>
 Total Liabilities	 <u>1,676,178</u>
<u>Net Position</u>	
Net Investment in Capital Assets	8,704,678
Restricted For:	
Debt Retirement	8,322
Capital Projects	494,424
Unrestricted	<u>2,807,285</u>
 Total Net Position	 <u>\$ 12,014,709</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, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenue and Change in Net Position
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 6,777,586	\$ 22,339	\$ 1,110,963	\$ 0	\$ (5,644,284)
Support Services	3,779,970	68,435	83,829	0	(3,627,706)
Community Services	9,806	2,779	0	0	(7,027)
Athletics	278,466	81,095	42,350	0	(155,021)
Food Services	581,974	154,857	381,631	0	(45,486)
Interest on Long-Term Debt	<u>43,341</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(43,341)</u>
<b>Total</b>	<b><u>\$ 11,471,143</u></b>	<b><u>\$ 329,505</u></b>	<b><u>\$ 1,618,773</u></b>	<b><u>\$ 0</u></b>	<b><u>(9,522,865)</u></b>
General Revenue:					
Property Taxes, Levied for General Purposes					4,330,485
Property Taxes, Levied for Debt Purposes					576,531
Property Taxes, Levied for Sinking Fund Purposes					235,058
State School Aid - Unrestricted					4,545,681
Investment Earnings					1,674
Miscellaneous					<u>7,584</u>
Total General Revenue					<u>9,697,013</u>
Change in net position					174,148
Net position - beginning (restated) (Note 17)					<u>11,840,561</u>
Net position - ending					<u>\$ 12,014,709</u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General Fund	Capital Projects Fund Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and Cash Equivalents (Note 2)	\$ 2,610,840	\$ 496,178	\$ 19,405	\$ 3,126,423
Receivables:				
Accounts, Net	7,913	0	0	7,913
Due From Other Governmental Units	1,239,471	0	5,376	1,244,847
Due from Other Funds (Note 3)	0	0	7,895	7,895
Inventory: (Note 1)				
Supplies	0	0	2,182	2,182
Building Trades Lots	10,793	0	0	10,793
Prepaid Expenses	40,000	0	0	40,000
 Total Assets	 \$ 3,909,017	 \$ 496,178	 \$ 34,858	 \$ 4,440,053
<u>Liabilities</u>				
Accounts Payable	\$ 15,305	\$ 0	\$ 0	\$ 15,305
Due to Other Units	128,294	0	0	128,294
Due to Other Funds (Note 3)	5,264	1,754	877	7,895
Payroll Deductions and Withholdings	175,951	0	7,228	183,179
Accrued Expenditures	45,353	0	0	45,353
Salaries Payable	445,853	0	15,870	461,723
Unearned Revenue	148,857	0	0	148,857
Total Liabilities	964,877	1,754	23,975	990,606
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	10,793	0	2,182	12,975
Prepaid Expenses	40,000	0	0	40,000
Restricted For:				
Debt Retirement	0	0	8,322	8,322
Capital Projects	0	494,424	0	494,424
Committed To:				
Bus Purchases	180,000	0	0	180,000
Technology Advancements	120,000	0	0	120,000
Textbooks	195,000	0	0	195,000
Assigned To:				
Food Service	0	0	379	379
2013/2014 Budgeted Expenditures	445,900	0	0	445,900
Unassigned	1,952,447	0	0	1,952,447
Total Fund Equity	2,944,140	494,424	10,883	3,449,447
 Total Liabilities and Fund Equity	 \$ 3,909,017	 \$ 496,178	 \$ 34,858	 \$ 4,440,053

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

TAWAS AREA SCHOOLS  
losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2014

Total governmental fund balances		\$	3,449,447
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	\$	19,558,145	
Capital Asset Accumulated Depreciation		<u>(10,299,416)</u>	9,258,729
Accrued interest on long-term liabilities			(3,360)
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)		(554,051)	
Compensated Absences Payable		(73,131)	
Incurred But Not Reported Benefit Claims		<u>(62,925)</u>	
Total long-term liabilities			<u>(690,107)</u>
Total net position - governmental activities		\$	<u>12,014,709</u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General Fund	Capital Projects Fund Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local Sources	\$ 4,528,057	\$ 235,211	\$ 731,498	\$ 5,494,766
State Sources	5,317,111	0	33,462	5,350,573
Federal Sources	416,749	0	348,169	764,918
Interdistrict Sources	<u>35,034</u>	<u>0</u>	<u>0</u>	<u>35,034</u>
Total revenue	<u>10,296,951</u>	<u>235,211</u>	<u>1,113,129</u>	<u>11,645,291</u>
<u>Expenditures</u>				
Current:				
Instruction	6,454,559	0	0	6,454,559
Support Services	3,499,476	0	0	3,499,476
Community Services	9,443	0	0	9,443
Food Services	0	0	572,103	572,103
Athletics	239,127	0	0	239,127
Capital Outlay	367,938	93,448	0	461,386
Debt Service:				
Principal Retirement	0	0	540,000	540,000
Interest and Fees on Long-Term Debt	<u>0</u>	<u>0</u>	<u>39,040</u>	<u>39,040</u>
Total expenditures	<u>10,570,543</u>	<u>93,448</u>	<u>1,151,143</u>	<u>11,815,134</u>
Excess of revenue over (under) expenditures	<u>(273,592)</u>	<u>141,763</u>	<u>(38,014)</u>	<u>(169,843)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	0	25,000	25,000
Operating Transfers Out	<u>(25,000)</u>	<u>0</u>	<u>0</u>	<u>(25,000)</u>
Total other financing sources (uses)	<u>(25,000)</u>	<u>0</u>	<u>25,000</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	(298,592)	141,763	(13,014)	(169,843)
Fund balances - beginning of year (restated) (Note 17)	<u>3,242,732</u>	<u>352,661</u>	<u>23,897</u>	<u>3,619,290</u>
Fund balances - end of year	<u>\$ 2,944,140</u>	<u>\$ 494,424</u>	<u>\$ 10,883</u>	<u>\$ 3,449,447</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, 2014

Total net change in fund balances - governmental funds	\$	(169,843)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Current year depreciation expense	\$ (423,590)	
Capital outlays reported in the governmental funds	<u>231,106</u>	(192,484)
<p>Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.</p>		
Bonds Payable		540,000
<p>Governmental funds report the effect of discounts and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>		
Amortization of Deferred Bond Discounts		(7,406)
<p>Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effects of the treatment of these activities are as follows:</p>		
Interest	3,105	
Compensated Absences	(1,268)	
Incurred But Not Reported Benefit Claims	<u>2,044</u>	
		<u>3,881</u>
Change in net position of governmental activities	\$	<u><u>174,148</u></u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2014

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ <u><u>120,036</u></u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u><u>120,036</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, 2014

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, 2014

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, 2014

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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2014, 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 collectibility.

The allowance for doubtful accounts at June 30, 2014 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 on government-wide financial statements is stated at cost and expensed when used.

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

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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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

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

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

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, 2014.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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.

P. Fund Balances

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

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

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

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

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance (Continued)

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.

Q. Property Taxes

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

R. 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, 2014, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2013.

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, 2013 - August, 2014. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

S. 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.

T. 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.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2014.

V. Economic Dependency

The School District received approximately 46% 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.

W. 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.

X. Budgetary Policies and Data

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

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

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

Y. Reclassifications

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. Recently Issued Accounting Standards

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ <u>3,126,423</u>	\$ <u>120,036</u>	\$ <u>3,246,459</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts)	\$ 232,778
Investments in Pooled Funds	3,012,981
Petty Cash and Cash on Hand	<u>700</u>
Total	\$ <u>3,246,459</u>

As of June 30, 2014, the School District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u>3,012,981</u>	Daily

Interest Rate Risk

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

TAWAS AREA SCHOOLS  
losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2014, the School District's investment in the Cadre Consulting managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2014, \$54,706 of the School District's bank balance of \$304,706 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.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2014 were as follows:

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds:		
General Fund	\$ 0	\$ 5,264
Sinking Fund	0	1,754
Non-major Governmental Funds	7,895	877
	\$ 7,895	\$ 7,895

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Construction in Progress	<u>116,392</u>	<u>0</u>	<u>(116,392)</u>	<u>0</u>
Subtotal	<u>266,917</u>	<u>0</u>	<u>(116,392)</u>	<u>150,525</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	13,835,618	252,190	0	14,087,808
Site Improvements	2,918,921	0	0	2,918,921
Furniture, Fixtures and Equipment	907,727	0	0	907,727
Vehicles and Buses	<u>1,397,856</u>	<u>95,308</u>	<u>0</u>	<u>1,493,164</u>
Subtotal	<u>19,060,122</u>	<u>347,498</u>	<u>0</u>	<u>19,407,620</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,110,751)	(257,601)	0	(6,368,352)
Site Improvements	(1,967,426)	(56,283)	0	(2,023,709)
Furniture, Fixtures and Equipment	(767,709)	(28,144)	0	(795,853)
Vehicles and Buses	<u>(1,029,940)</u>	<u>(81,562)</u>	<u>0</u>	<u>(1,111,502)</u>
Subtotal	<u>(9,875,826)</u>	<u>(423,590)</u>	<u>0</u>	<u>(10,299,416)</u>
Capital Assets Being Depreciated	<u>9,184,296</u>	<u>(76,092)</u>	<u>0</u>	<u>9,108,204</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,451,213</u>	<u>\$ (76,092)</u>	<u>\$ (116,392)</u>	<u>\$ 9,258,729</u>

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

Governmental Activities

Instruction	\$ 254,820
Support Services	143,779
Community Services	363
Athletics	2,606
Food Services	<u>22,022</u>
	<u>\$ 423,590</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, 2014.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	Date of Contract	Principal Due	Interest	Total Obligation
2003 Refunding Bonds:				
The bonds dated March 27, 2003 which bear interest from 3.45% to 3.6% are due serially each May 1 through 2015				
	2003	\$ <u>560,000</u>	\$ <u>20,160</u>	\$ <u>580,160</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2014 are as follows:

	Government Activities		
	Principal	Interest	Total
2015	\$ <u>560,000</u>	\$ <u>20,160</u>	\$ <u>580,160</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 \$73,131 at June 30, 2014, of which \$42,631 was the estimated current portion.

C. Health Insurance

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

The changes in the Health Insurance claims liability for the year ended June 30, 2014 are as follows:

	6/30/2014
Claims Liability, Beginning of Year	\$ 64,969
Claims and Damages Incurred	293,777
Claims Payments	(295,821)
Claims Liability, End of Year	\$ <u>62,925</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

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, 2014:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
Bonds	\$ 1,100,000	\$ 0	\$ (540,000)	\$ 560,000	\$ 560,000
Deferred Amounts for Issuance					
Discount	<u>(13,355)</u>	<u>0</u>	<u>7,406</u>	<u>(5,949)</u>	<u>(5,949)</u>
Total Bonds Payable, Net	1,086,645	0	(532,594)	554,051	554,051
Compensated Absences	71,863	1,268 *	0	73,131	42,631
Incurred but not Reported					
Benefit Claims	<u>64,969</u>	<u>293,777</u>	<u>(295,821)</u>	<u>62,925</u>	<u>62,925</u>
Total Long-Term Liabilities	<u>\$ 1,223,477</u>	<u>\$ 295,045</u>	<u>\$ (828,415)</u>	<u>\$ 690,107</u>	<u>\$ 659,607</u>

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

The interest expenses on long-term obligations for the year were \$43,341.

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

NOTE 7 - OPERATING TRANSFERS

During the year ended June 30, 2014, the following transfers were made:

<u>Description</u>	<u>Operating</u> <u>Transfers In</u>	<u>Operating</u> <u>Transfers Out</u>
General Fund	\$ 0	\$ 25,000
Non-major Governmental Funds	<u>25,000</u>	<u>0</u>
	<u>\$ 25,000</u>	<u>\$ 25,000</u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

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

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

During the year ended June 30, 2014, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Instruction	\$ 6,405,248	\$ 6,454,559	\$ 49,311
General/Athletics	\$ 231,725	\$ 239,127	\$ 7,402
General/Capital Outlay	\$ 328,584	\$ 367,938	\$ 39,354

NOTE 9 - RETIREMENT PLANS

Defined Benefit Plan

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

Funding Policy

Effective January 1, 1987, employees who were MPSERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and; employees hired between January 1, 1990 and June 30, 2008 will contribute 4.3% of all wages over \$15,000 and employees hired after June 30, 2008 will contribute 6.4% of wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Effective September 2010, employees who first work on or after July 1, 2010 are eligible to be enrolled in the MPSERS Pension Plus Plan (PPP). The employer pays a reduced rate for MIP for employees that participate in PPP.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 9 - RETIREMENT PLANS (CONTINUED)

Defined Benefit Plan (Continued)

Funding Policy (Continued)

Effective September 4, 2012, active members who first worked before July 1, 2010, and 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, were given four pension elections to choose from. If an election was not made by January 9, 2013, the member would default to option 3 as follows:

- Option 1 - Increases member's pension contribution based on type of plan involved in and allows member to retain the 1.5% pension factor in their pension formula. The increase begins as of the member's transition date and continues until they terminate public school employment:
  - A) Basic Plan Members receive a 4% contribution
  - B) MIP-Fixed, MIP-Graded and MIP-Plus members receive a flat 7% contribution.
- Option 2 - Same as option 1 with the exception that after the member reaches 30 years of service, the member's contribution rate returns to the rate that was in effect prior to the transition date.
- Option 3 - Members retain their current contribution rate, with no increases, and will include a 1.5% pension factor in their pension formula for the years of service prior to their transition date and 1.25% for the years of service after their transition date.
- Option 4 - Member voluntarily elects to no longer contribute to the pension fund and therefore is switched to the Defined Contribution Plan for future years of service as of their transition date. These members will receive a 4% employer contribution to a tax deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS, to their 457 account. Employer contributions will vest at 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. Any employee contributions and related earnings are 100% vested immediately. Upon retirement, if they meet age and service requirements, they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Employees hired on or after September 4, 2012 will be automatically enrolled in the Pension Plus Plan. They will have 75 days from the last day of their first pay period to opt out of the Pension Plus Plan and elect to participate in the Defined Contribution Plan.

Contribution Rates

At the start of the plan fiscal year 2013, employer contributions for Basic/MIP with Premium Subsidy is 24.32%; PPP with Premium Subsidy remains 24.13%; PPP with Personal Healthcare Fund (PHF) is 23.20%; PPP that elected DC with PHF remains 20.96%; Basic/MIP that elected DC with Premium Subsidy is 21.89%, Basic/MIP that elected DC with PHF is 20.96% and Basic/MIP with PHF is 23.39%. Effective October 1, 2013, employer contributions for Basic/MIP with Premium Subsidy is 24.79%; PPP with Premium Subsidy is 24.56%; PPP with Personal Healthcare Fund (PHF) is 23.63%; PPP that elected DC with PHF remains 20.96%; Basic/MIP that elected DC with Premium Subsidy remains 21.89%, Basic/MIP that elected DC with PHF remains 20.96% and Basic/MIP with PHF is 23.86%. The contribution rate for retirees and former qualified participants who return to work is 20.96%. The contribution requirements of plan members and Tawas Area Schools are established and may be amended by the MPSERS Board. The School District's contributions to MPSERS for the years ending June 30, 2014, 2013 and 2012 were \$1,352,399, \$1,333,295 and \$1,347,727, respectively, equal to the required contributions for each year.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 9 - RETIREMENT PLANS (CONTINUED)

Defined Benefit Plan (Continued)

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

Deferred Compensation Plans

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

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 \$29,186 for the year ended June 30, 2014.

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 \$125,442 for the year ended June 30, 2014. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

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 (MPSERS) 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 MPSERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The report may be obtained by writing to MPSERS, 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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 9 - RETIREMENT PLANS (CONTINUED)

Defined Contribution Plan (Continued)

Funding Policy (Continued)

Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

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

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

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

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2014, the School District contributed \$20,712 on behalf of eligible employees. Employee contributions amounted to \$36,403 for eligible employees.

NOTE 10 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$803 as of June 30, 2014.

NOTE 11 - SINKING FUND

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - GOVERNMENTAL REGULATION

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

NOTE 14 - COMMITMENTS

The School District has contractual commitments for architectural and engineering services related to the potential Bond Project with THA Architects Engineers of Flint, Michigan outstanding at June 30, 2014. The commitment is contingent upon the November 2014 millage being successful, and does not state a price, only that the District commits to utilizing THA Architects Engineers for any projects included in the November 2014 millage.

NOTE 15 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2014, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

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

NOTE 16 - SUBSEQUENT EVENTS

On July 7, 2014, the School District accepted a bid from Lakeshore Contracting Inc. for the Re-roofing Project at Clara Bolen Elementary School for a total of \$123,000 to be paid from the Sinking Fund.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

In the current year, the School District received a refund from Blue Cross and Blue Shield of Michigan from their Settlement Accounting for July 2012 through June 2013. Therefore, a prior period adjustment was made to increase the Governmental Activities Statement of Net Position and General Fund Fund Balance at June 30, 2013 by \$61,775.

	General Fund	Governmental Activities
Net Position - Beginning	\$ 3,180,957	\$ 11,778,786
Adjustment for Blue Cross/Blue Shield Refund	61,775	61,775
Net Position - Beginning (Restated)	\$ 3,242,732	\$ 11,840,561

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2014

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 4,436,860	\$ 4,486,250	\$ 4,528,057	\$ 41,807
State Sources	5,398,314	5,278,494	5,317,111	38,617
Federal Sources	492,584	435,443	416,749	(18,694)
Interdistrict Sources	45,300	39,422	35,034	(4,388)
Total revenue	10,373,058	10,239,609	10,296,951	57,342
<u>Expenditures</u>				
Current:				
Instruction	6,562,546	6,405,248	6,454,559	(49,311)
Support Services	3,436,573	3,528,835	3,499,476	29,359
Community Services	8,985	10,474	9,443	1,031
Athletics	229,515	231,725	239,127	(7,402)
Capital Outlay	385,675	328,584	367,938	(39,354)
Total expenditures	10,623,294	10,504,866	10,570,543	(65,677)
Excess of revenue over (under) expenditures	(250,236)	(265,257)	(273,592)	(8,335)
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out	0	(25,000)	(25,000)	0
Excess of revenue and other sources over (under) expenditures and other uses	(250,236)	(290,257)	(298,592)	(8,335)
Fund balances - beginning of year (restated)	3,242,732	3,242,732	3,242,732	0
Fund balances - end of year	\$ 2,992,496	\$ 2,952,475	\$ 2,944,140	\$ (8,335)

OTHER INFORMATION

TAWAS AREA SCHOOLS  
losco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2014

	Special Revenue Fund		Debt Retirement Fund		Total Other Governmental Funds
	Lunch Fund		Fund		Funds
<u>Assets</u>					
Cash and Cash Equivalents	\$ 10,206	\$	9,199	\$	19,405
Receivables:					
Due From Other Governmental Units	5,376		0		5,376
Due from Other Funds	7,895		0		7,895
Inventory:					
Supplies	2,182		0		2,182
 Total Assets	 \$ 25,659	\$	 9,199	\$	 34,858
<u>Liabilities</u>					
Due to Other Funds	\$ 0	\$	877	\$	877
Payroll Deductions and Withholdings	7,228		0		7,228
Salaries Payable	15,870		0		15,870
Total Liabilities	23,098		877		23,975
<u>Fund Equity</u>					
Fund Balances:					
Nonspendable:					
Inventory	2,182		0		2,182
Restricted For:					
Debt Retirement	0		8,322		8,322
Assigned To:					
Food Service	379		0		379
Total Fund Equity	2,561		8,322		10,883
 Total Liabilities and Fund Equity	 \$ 25,659	\$	 9,199	\$	 34,858

TAWAS AREA SCHOOLS  
losco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	Special Revenue Fund		Total Other Governmental Funds
	Lunch Fund	Debt Retirement Fund	
<u>Revenue</u>			
Local Sources	\$ 154,878	\$ 576,620	\$ 731,498
State Sources	33,462	0	33,462
Federal Sources	348,169	0	348,169
Total revenue	536,509	576,620	1,113,129
<u>Expenditures</u>			
Current:			
Food Services	572,103	0	572,103
Debt Service:			
Principal Retirement	0	540,000	540,000
Interest and Fees on Long-Term Debt	0	39,040	39,040
Total expenditures	572,103	579,040	1,151,143
Excess of revenue over (under) expenditures	(35,594)	(2,420)	(38,014)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	25,000	0	25,000
Excess of revenue and other sources over (under) expenditures and other uses	(10,594)	(2,420)	(13,014)
Fund balances - beginning of year	13,155	10,742	23,897
Fund balances - end of year	\$ 2,561	\$ 8,322	\$ 10,883

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013

	<u>2014 Amended Budget</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
<u>Local Sources</u>			
Current Property Taxes	\$ 4,356,631	\$ 4,330,485	\$ 4,406,519
Tuition	2,850	2,779	2,656
Summer School Tuition	4,000	3,865	8,226
Transportation Fees	24,000	40,014	20,175
Gate Receipts	45,000	46,175	44,225
Interest on Investments	1,303	1,411	2,487
Rents	3,741	3,741	3,741
Booster Donations	0	42,350	105,000
Medicaid Fee for Service	15,000	18,474	76,440
Miscellaneous Local Sources	33,725	38,763	29,538
	<u>4,486,250</u>	<u>4,528,057</u>	<u>4,699,007</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,389,524	4,402,927	4,376,989
Special Education	214,739	214,739	235,674
At Risk	239,648	239,103	197,286
Technology Infrastructure	50,046	49,968	12,800
Best Practices	68,291	68,290	66,403
MPSERS Cost Offset	74,591	74,464	115,489
MPSERS UAAL Rate Stabilization	241,655	267,620	109,389
	<u>5,278,494</u>	<u>5,317,111</u>	<u>5,114,030</u>
<u>Federal Sources</u>			
ECIA Title I	317,719	314,080	578,347
ECIA Title II- Improving Teacher Quality	82,096	68,808	67,361
ECIA Title VI	24,828	24,828	30,657
Medicaid Outreach	1,000	0	1,124
Schools and Roads Grant Funds	9,800	9,033	9,782
	<u>435,443</u>	<u>416,749</u>	<u>687,271</u>
<u>Interdistrict Sources</u>			
Vocational Education	11,000	6,613	10,624
Services Provided to Other Public Schools	28,422	28,421	26,488
	<u>39,422</u>	<u>35,034</u>	<u>37,112</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	0	0	6,878
Proceeds of Loss Recoveries	0	0	57,401
	<u>0</u>	<u>0</u>	<u>64,279</u>
 Total Revenue and Other Financing Sources	 <u>\$ 10,239,609</u>	 <u>\$ 10,296,951</u>	 <u>\$ 10,601,699</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013

	2014 Amended Budget	2014 Actual	2013 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,201,732	\$ 1,201,535	\$ 1,138,748
Employee Benefits	684,466	708,018	672,765
Purchased Services	30,833	30,341	29,815
Supplies, Materials and Other	<u>65,935</u>	<u>55,547</u>	<u>38,069</u>
	<u>1,982,966</u>	<u>1,995,441</u>	<u>1,879,397</u>
Junior High School			
Salaries	639,994	640,182	659,399
Employee Benefits	393,605	415,962	425,447
Purchased Services	27,859	27,716	31,757
Supplies, Materials and Other	<u>11,549</u>	<u>11,389</u>	<u>13,497</u>
	<u>1,073,007</u>	<u>1,095,249</u>	<u>1,130,100</u>
High School			
Salaries	1,171,972	1,172,197	1,186,396
Employee Benefits	682,833	701,304	664,818
Purchased Services	51,508	50,894	73,032
Supplies, Materials and Other	<u>94,392</u>	<u>95,113</u>	<u>89,793</u>
	<u>2,000,705</u>	<u>2,019,508</u>	<u>2,014,039</u>
Summer School			
Salaries	1,550	1,550	1,550
Employee Benefits	<u>559</u>	<u>559</u>	<u>498</u>
	<u>2,109</u>	<u>2,109</u>	<u>2,048</u>
<b>Total Basic Programs</b>	<u>5,058,787</u>	<u>5,112,307</u>	<u>5,025,584</u>
Added Needs:			
Special Education			
Salaries	430,009	429,696	390,113
Employee Benefits	228,851	226,533	192,202
Purchased Services	51,434	53,962	60,139
Supplies, Materials and Other	<u>4,500</u>	<u>4,126</u>	<u>320</u>
	<u>714,794</u>	<u>714,317</u>	<u>642,774</u>
Compensatory Education			
Salaries	263,899	260,999	263,307
Employee Benefits	109,657	108,620	133,336
Purchased Services	0	0	325
Supplies, Materials and Other	<u>14,291</u>	<u>14,291</u>	<u>199,760</u>
	<u>387,847</u>	<u>383,910</u>	<u>596,728</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013

	2014 Amended Budget	2014 Actual	2013 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 58,566	\$ 58,634	\$ 38,289
Employee Benefits	32,120	32,284	19,206
Purchased Services	150,508	150,507	224,157
Supplies, Materials and Other	2,626	2,600	1,931
	243,820	244,025	283,583
Total Added Needs	1,346,461	1,342,252	1,523,085
Total Instruction	6,405,248	6,454,559	6,548,669
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	81,010	81,298	81,058
Employee Benefits	49,408	48,711	45,333
Purchased Services	453	1,020	59
Supplies, Materials and Other	243	243	65
	131,114	131,272	126,515
Health Services			
Purchased Services	7,080	4,812	4,512
Psychological Services			
Purchased Services	6,446	4,405	2,765
Speech			
Salaries	62,108	62,108	59,530
Employee Benefits	36,886	37,095	34,849
Purchased Services	0	0	184
Supplies, Materials and Other	200	0	0
	99,194	99,203	94,563
Social Work			
Salaries	117,148	117,234	113,952
Employee Benefits	69,073	69,309	64,467
Purchased Services	0	66	54
	186,221	186,609	178,473
Total Pupil Services	430,055	426,301	406,828

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013

	<u>2014 Amended Budget</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff:			
Instructional Improvement			
Salaries	\$ 0	\$ 0	\$ 621
Employee Benefits	0	0	15
Purchased Services	<u>34,013</u>	<u>32,079</u>	<u>31,627</u>
	<u>34,013</u>	<u>32,079</u>	<u>32,263</u>
Library Services			
Salaries	34,072	34,104	31,556
Employee Benefits	18,641	18,366	16,314
Purchased Services	1,461	1,518	499
Supplies, Materials and Other	<u>7,476</u>	<u>7,577</u>	<u>4,882</u>
	<u>61,650</u>	<u>61,565</u>	<u>53,251</u>
Computer Assisted Instruction			
Supplies, Materials and Other	<u>2,632</u>	<u>2,632</u>	<u>0</u>
Director of Instruction			
Purchased Services	100	0	0
Supplies, Materials and Other	<u>7,600</u>	<u>8,328</u>	<u>2,539</u>
	<u>7,700</u>	<u>8,328</u>	<u>2,539</u>
Total Instructional Staff	<u>105,995</u>	<u>104,604</u>	<u>88,053</u>
General Administration:			
Board of Education			
Salaries	6,500	6,510	6,930
Employee Benefits	0	0	3,281
Purchased Services	<u>51,928</u>	<u>45,893</u>	<u>43,947</u>
	<u>58,428</u>	<u>52,403</u>	<u>54,158</u>
Executive Administration			
Salaries	147,368	147,369	143,061
Employee Benefits	74,598	76,049	68,511
Purchased Services	31,994	30,473	20,337
Supplies, Materials and Other	<u>18,324</u>	<u>18,218</u>	<u>16,059</u>
	<u>272,284</u>	<u>272,109</u>	<u>247,968</u>
Total General Administration	<u>330,712</u>	<u>324,512</u>	<u>302,126</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013

	<u>2014 Amended Budget</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
<u>Support Services (Continued)</u>			
School Administration:			
Office of the Principal			
Salaries	\$ 462,411	\$ 462,627	\$ 451,033
Employee Benefits	273,641	276,171	245,056
Purchased Services	2,378	2,516	7,233
Supplies, Materials and Other	<u>31,750</u>	<u>31,623</u>	<u>26,423</u>
	<u>770,180</u>	<u>772,937</u>	<u>729,745</u>
Business:			
Fiscal Services			
Salaries	115,322	115,314	113,886
Employee Benefits	69,837	68,638	65,962
Purchased Services	30,035	30,034	29,887
Other Expenditures	<u>6,870</u>	<u>7,523</u>	<u>17,790</u>
	<u>222,064</u>	<u>221,509</u>	<u>227,525</u>
Operations and Maintenance:			
Salaries	286,417	282,536	287,353
Employee Benefits	192,202	190,670	172,866
Purchased Services	456,659	440,281	404,636
Supplies, Materials and Other	<u>20,050</u>	<u>30,444</u>	<u>43,473</u>
	<u>955,328</u>	<u>943,931</u>	<u>908,328</u>
Transportation:			
Salaries	244,384	243,848	250,904
Employee Benefits	145,012	143,715	144,295
Purchased Services	54,329	57,073	45,618
Supplies, Materials and Other	<u>135,580</u>	<u>130,381</u>	<u>140,999</u>
	<u>579,305</u>	<u>575,017</u>	<u>581,816</u>
Central Services:			
Salaries	18,738	18,738	20,769
Employee Benefits	<u>12,205</u>	<u>12,204</u>	<u>10,554</u>
	<u>30,943</u>	<u>30,942</u>	<u>31,323</u>
Technology:			
Salaries	55,713	54,968	67,904
Employee Benefits	35,240	33,814	45,121
Purchased Services	<u>13,300</u>	<u>10,941</u>	<u>17,436</u>
	<u>104,253</u>	<u>99,723</u>	<u>130,461</u>
Total Support Services	<u>3,528,835</u>	<u>3,499,476</u>	<u>3,406,205</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013

	2014 Amended Budget	2014 Actual	2013 Actual
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Community Services</u>			
Other Community Services:			
Salaries	\$ 4,116	\$ 4,117	\$ 4,852
Employee Benefits	3,395	3,391	3,757
Purchased Services	2,498	1,470	2,853
Supplies, Materials and Other	<u>465</u>	<u>465</u>	<u>336</u>
Total Community Services	<u>10,474</u>	<u>9,443</u>	<u>11,798</u>
<u>Athletics</u>			
Salaries	25,743	26,275	18,918
Employee Benefits	10,408	10,772	12,535
Equipment and Supplies	0	1,269	282
Purchased Services	181,164	180,864	189,837
Other Expenditures	<u>14,410</u>	<u>19,947</u>	<u>21,293</u>
Total Athletics	<u>231,725</u>	<u>239,127</u>	<u>242,865</u>
<u>Capital Outlay</u>			
Instruction	71,654	71,652	66,201
Support Services	239,240	236,619	287,622
Athletics	<u>17,690</u>	<u>59,667</u>	<u>129,974</u>
Total Capital Outlay	<u>328,584</u>	<u>367,938</u>	<u>483,797</u>
<u>Operating Transfers Out</u>			
Food Service Fund	<u>25,000</u>	<u>25,000</u>	<u>0</u>
Total Expenditures	<u>\$ 10,529,866</u>	<u>\$ 10,595,543</u>	<u>\$ 10,693,334</u>



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TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2014

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August 8, 2014

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

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements and have issued our report thereon dated August 8, 2014.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tawas Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tawas Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. 2014-001.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Tawas Area Schools' Response to Findings**

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

**Purpose of this Report**

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

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



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August 8, 2014

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

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

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

We have audited Tawas Area Schools' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Tawas Area Schools' major federal programs for the year ended June 30, 2014. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Tawas Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tawas Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Tawas Area Schools' compliance.

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

In our opinion, Tawas Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

***Report on Internal Control Over Compliance***

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements. We issued our report thereon dated August 8, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2014

Findings - Financial Statements Audit

2013-001                    Lack of Sufficient Support for Activity Fund Transactions

Other than fundraisers, there were no recaps or reconciliations prepared for activity fund events detailing out the money that was being collected and deposited to support the completeness of the deposits.

Progress has been made in this area and therefore, this situation is no longer considered to be a significant deficiency in the current year.

2013-002                    Information Technology Inventory

The District maintained an IT inventory listing, but it was not consistently updated for disposal replacements and relocated items.

Although progress has been made in this area, this situation does still exist and is still considered to be a significant deficiency in the current year. See the current year finding 2014-001.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2013.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Tawas Area Schools.
2. One significant deficiency in internal control relating to the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Tawas Area Schools, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for Tawas Area Schools are reported in this schedule.
7. The programs tested as major programs included: Title I Cluster, CFDA #84.010
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Tawas Area Schools was determined to be a low-risk auditee.

Findings - Financial Statement Audit

2014-001

Information Technology Inventory

**Condition and Criteria:** Proper internal control mandates that safeguarding controls over inventory be established. Currently, the information technology (IT) inventory listing is not complete and the items purchased with federal funding are not properly tagged.

**Effect:** District property could be misappropriated or used for non-district purposes. In addition, the assets purchased with federal funding that are not properly tagged could be used for un-allowed purposes.

**Cause:** There appears to be a lack of control and communication over the inventory listing and tagging process.

**Context:** Tawas Area Schools has an IT inventory listing but it is not consistently updated and items on the listing purchased with federal funds are not being properly tagged.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

Findings - Financial Statement Audit (Continued)

2014-001                    Information Technology Inventory (Continued)

**Auditor's Recommendation:** The District should establish procedures to randomly test and locate IT inventory items to ensure their presence on the District's premises. Management should then inquire about any unusual activity, including unusual movement, suspected theft, or personal use of the assets. In addition, the Technology Support Specialist should update all current inventory tags with the State's required elements, as soon as possible.

**Views of Responsible Officials and Planned Corrective Actions:** The Superintendent will work with the Technology Support Specialist to ensure that all items are properly tagged and to help develop a plan for the Administrators to begin performing periodic spot checks on IT inventory to verify that all items included on the District's inventory listing are still in the District's physical possession. Any discrepancies will be immediately researched and resolved.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2014.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

Federal Grantor or Pass Through Grantor Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2013	Current Year Expenditures	Current Year Receipts (Cash Basis)	Adjustments	Accrued (Deferred) Revenue June 30, 2014
<u>U.S. Department of Agriculture</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
Non-Cash Assistance (Commodities):								
Food Distribution								
55030 Entitlement Commodities	10.555	\$ 30,943	\$ 0	\$ 0	\$ 30,943	\$ 30,943	\$ 0	\$ 0
Cash Assistance:								
School Breakfast Program								
131970 2012-2013	10.553	66,305	58,752	0	7,553	7,553	0	0
141970 2013-2014		62,417	0	0	62,417	62,417	0	0
		<u>128,722</u>	<u>58,752</u>	<u>0</u>	<u>69,970</u>	<u>69,970</u>	<u>0</u>	<u>0</u>
National School Lunch Program								
Section 11 - Free and Reduced								
131960 2012-2013	10.555	234,527	205,810	0	28,717	28,717	0	0
141960 2013-2014		218,539	0	0	218,539	218,539	0	0
		<u>453,066</u>	<u>205,810</u>	<u>0</u>	<u>247,256</u>	<u>247,256</u>	<u>0</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>		<u>581,788</u>	<u>264,562</u>	<u>0</u>	<u>317,226</u>	<u>317,226</u>	<u>0</u>	<u>0</u>
Total Child Nutrition Cluster		<u>612,731</u>	<u>264,562</u>	<u>0</u>	<u>348,169</u>	<u>348,169</u>	<u>0</u>	<u>0</u>
Passed through Iosco County:								
Schools and Roads Grants Funds	10.665	9,033	0	0	9,033	9,033	0	0
Total U.S. Department of Agriculture		<u>621,764</u>	<u>264,562</u>	<u>0</u>	<u>357,202</u>	<u>357,202</u>	<u>0</u>	<u>0</u>
<u>U.S. Department of Education</u>								
Passed through the Michigan Department of Education:								
Title I - Grants to Local Educational Agencies								
131530 1213 2012-2013	84.010	605,667	376,389	21,188	0	21,188	0	0
141530 1314 2013-2014		351,603	0	0	314,080	148,319	0	165,761
		<u>957,270</u>	<u>376,389</u>	<u>21,188</u>	<u>314,080</u>	<u>169,507</u>	<u>0</u>	<u>165,761</u>
Title VI Part B, Subpart 2:								
Rural and Low-Income Grant								
140660 2013-2014	84.358B	24,828	0	0	24,828	24,828	0	0

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS  
losco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

Federal Grantor or Pass Through Grantor Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2013	Current Year Expenditures	Current Year Receipts (Cash Basis)	Adjustments	Final Accrued (Deferred) Revenue June 30, 2014
<u>U.S. Department of Education</u> (Continued)								
Passed through the Michigan Department of Education:								
Title II Part A:								
Improving Teacher Quality								
130520 1213 2012-2013	84.367	\$ 76,356	\$ 67,361	\$ (6,123)	\$ 0	\$ 0	\$ 6,123	\$ 0
140520 1314 2013-2014		<u>82,238</u>	<u>0</u>	<u>0</u>	<u>68,808</u>	<u>48,396</u>	<u>0</u>	<u>20,412</u>
		<u>158,594</u>	<u>67,361</u>	<u>(6,123)</u>	<u>68,808</u>	<u>48,396</u>	<u>6,123</u>	<u>20,412</u>
Total U.S. Department of Education		<u>1,140,692</u>	<u>443,750</u>	<u>15,065</u>	<u>407,716</u>	<u>242,731</u>	<u>6,123</u>	<u>186,173</u>
<u>U.S. Department of Health and Human Services</u>								
Passed through losco Regional Educational Service Agency:								
Medical Assistance Program Title XIX:								
Medicaid Outreach Claims 2012-2013	93.778	<u>1,124</u>	<u>1,124</u>	<u>1,124</u>	<u>0</u>	<u>1,124</u>	<u>0</u>	<u>0</u>
Total Federal Financial Awards		<u>\$ 1,763,580</u>	<u>\$ 709,436</u>	<u>\$ 16,189</u>	<u>\$ 764,918</u>	<u>\$ 601,057</u>	<u>\$ 6,123</u>	<u>\$ 186,173</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. In the current year, the previously reported deferred revenue under the Title II Part A program of \$6,123 was recaptured by the State, removing the deferral from the District's books as of June 30, 2014.
7. Reconciliation to financial statements:

General Fund	\$ 416,749
Special Revenue Fund:	
Lunch Fund	<u>348,169</u>
	<u>\$ 764,918</u>



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

Certified Public Accountants & Consultants

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

August 8, 2014

Management and the Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 17, 2014. 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 8, 2014. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Very truly yours,

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

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

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

As stated in our engagement letter dated June 17, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about Tawas Area Schools' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion of 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 June 17, 2014.

### **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. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Tawas Area Schools' financial statements was:

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

- The financial statements 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. A summary of audit differences, both adjusted and unadjusted was provided to management on August 8, 2014. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated August 8, 2014.

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

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

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

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

### **Other Matters**

We applied certain limited procedures to the Management's Discussion and Analysis and the Budgetary Comparison Schedule, 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 Combining Nonmajor Funds and Individual Fund Financial Statements, 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, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Tawas Area Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tawas Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency.

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

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

### **IT INVENTORY**

During the audit, we noted that the District's new Technology Support Specialist was in the process of creating a new IT inventory listing as well as tagging all of the inventory items. Because most of the IT inventory is relatively small (i.e., laptop computers, tablets, etc.) they are highly susceptible to loss. We recommend that the District establish procedures to randomly test and locate IT inventory items to ensure their presence on the District's premises. Management should then inquire about any unusual activity, including unusual movement, suspected theft, or personal use of the assets.

In addition, we noted that the current inventory tags used on the various items do not meet the State's requirements for items purchased with Federal dollars. The State requires that the equipment be clearly identified with the source of funding (noting the actual grant used to make the purchase), directly on the tag. We recommend that the Technology Support Specialist update all current tags to include this requirement as soon as possible.

During our audit, we also became aware of the following other matter that is an opportunity for strengthening internal controls and operating efficiency.

### **PAYROLL CONTRACTS**

We noted that currently, the employment contracts are dated to run from July through June each year, which if followed, would put the District in a situation of prepaying employees for the July and August months. However, we also noted that currently, although the contract dates run from July through June, the contract pay dates run from Mid-August to Mid-August each year. We recommend that management move the contract payment dates to be in line with the actual contract dates. How the District addresses this situation is a District decision. The District could switch to a September through August contract period (which would be the recommended conservative approach) or stick with a July through June contract. Regardless, the contract dates and payments dates, should be the same. Then, in order to ensure that the pay dates remain the same, management would need to either switch to a 24 pay period cycle or have an unpaid week each year at the end of the contract, to catch everyone up, until the new contract period begins.

**APPENDIX II  
MANAGEMENT COMMENTS**

**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>
Student Activity Funds			X	
IT Inventory			X	