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TAWAS AREA SCHOOLS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2016

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AUDITORS' REPORT

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September 6, 2016

Independent Auditors' Report

Board of Education
Tawas Area Schools
Iosco County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2016, included in the Single Audit Report issued under a separate cover, on our consideration of Tawas Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tawas Area Schools' internal control over financial reporting and compliance.

Stephenson, Grain & Co., P.C.

Tawas Area Schools

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

As management of the Tawas Area Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

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

FINANCIAL HIGHLIGHTS

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

The District realized relative stability in all governmental activities, except the Construction Capital Projects Fund, for the 2015/2016 school year. The Construction Capital Projects Fund fund balance decreased by \$5,444,790, primarily due to ongoing construction in the current year connected to the issuance of bonds in the prior year. Enrollment of students was fairly consistent with predictions. The cost containment strategies implemented by Administration offset the lack of increased revenues in the District. The state's continued economic struggle does not promote financial confidence. Our ability to reach our financial goals and to maintain an adequate fund balance will again present an ongoing challenge.

The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$2,300,744 (net position). Of this amount, \$(16,474,017) (unrestricted Net Position) is the result of the District's ongoing obligations to taxpayers, employees, students and creditors.

The District's total Net Position decreased by \$258,539 which was a \$480,000 decrease from the prior year's change in net position. This is mainly due to an increase in interest on long-term debt of approximately \$217,000 on the 2015 Building and Site Bonds, combined with decreases in ongoing revenues and increases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,353,582, a decrease of \$5,326,456 in comparison with the prior year. Of this amount, \$2,081,938 (unassigned fund balance) is available for spending at the District's discretion.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Construction Fund, Sinking Fund, Debt Retirement Fund, and Food Service Fund) was \$7,353,582 or 41% of the total expenditures of these operating funds.

The General Fund fund balance had a decrease in the current year of \$8,657 due to increases in General Fund expenditures that exceeded the related increases in revenues.

The Construction Fund fund balance had a decrease in the current year of \$5,444,790 due to the current year capital outlay exceeding the related revenues.

The Sinking Fund fund balance increased by \$94,606 in the current year due to the property tax revenues exceeding the current year capital projects.

The Lunch Fund fund balance decreased by \$9,422 due primarily to a decrease of transfers in to the Lunch Fund of \$15,000.

The Debt Retirement Fund fund balance increased by \$41,807 in the current year due to a decrease in expenses related to principal retirement and interest in the current year.

TAWAS AREA SCHOOLS
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

TAWAS AREA SCHOOLS
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

Governmental Funds (Continued)

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

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

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School District's Net Position was \$(2,300,744) at June 30, 2016. Of this amount, \$(16,474,017) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations.

TAWAS AREA SCHOOLS
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

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

TABLE 1
NET POSITION

	Governmental Activities	
	June 30, 2016	June 30, 2015
Current Assets	\$ 9,439,965	\$ 13,867,774
Noncurrent Assets:		
Capital Assets - Net	14,748,872	9,445,707
Total Assets	24,188,837	23,313,481
Deferred Outflows of Resources	2,008,827	1,527,483
Current Liabilities	2,137,264	1,156,544
Noncurrent Liabilities	25,863,131	24,140,721
Total Liabilities	28,000,395	25,297,265
Deferred Inflows of Resources	498,013	1,585,904
<u>Net Position</u>		
Net Investment in Capital Assets	9,809,422	9,022,464
Restricted	4,363,851	619,890
Unrestricted	(16,474,017)	(11,684,559)
Total Net Position	\$ (2,300,744)	\$ (2,042,205)

The \$(16,474,017) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (net pension liability for example); we would be short by \$(16,474,017). This shortfall is a direct result of the implementation of GASB 68 in the prior year. See Note 8 of this report.

TABLE 2
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2016	Year Ended June 30, 2015
Revenues:		
Program Revenues:		
Charges for Services	\$ 400,061	\$ 361,785
Operating Grants and Contributions	1,803,612	1,889,815
Capital Grants and Contributions	37,288	104,635
General Revenues:		
Current Property Taxes	5,244,643	5,201,050
State School Aid – Unrestricted	4,633,150	4,710,545
Investment Earnings	22,350	2,627
Gain (Loss) on Sale of Capital Assets	0	6,921
Miscellaneous	6,291	7,131
Total Revenues	12,147,395	12,284,509

TAWAS AREA SCHOOLS
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2016	Year Ended June 30, 2015
Functions/Program Expenses:		
Instruction	\$ 7,383,071	\$ 7,052,974
Support Services	3,742,212	3,979,405
Community Services	15,716	17,316
Athletics	284,449	272,870
Food Services	628,754	605,669
Interest on Long-Term Debt	351,732	134,774
Total Functions/Program Expenses	12,405,934	12,063,008
Change in Net Position	(258,539)	221,501
Beginning Net Position	(2,042,205)	(2,263,706)
Ending Net Position	\$ (2,300,744)	\$ (2,042,205)

Governmental activities decreased the District's net position by \$258,539.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$12,405,934. However, the amount that our taxpayers ultimately financed for these activities through the School District was only (\$5,244,643) because some of the cost was paid by those who benefited from the programs (\$400,061), by other governments and organizations who subsidized certain programs with grants and contributions (\$1,803,612), by unrestricted state school aid (\$4,633,150), and by miscellaneous sources (\$6,291).

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, 2016, the District amended the budgets of these governmental funds a couple of times, due to changes in funding sources.

General Fund

The general fund actual revenue was \$11,124,546. The amount is above the original budget estimate of \$10,988,320 and below the final amended budget of \$11,146,155. The variance between the actual revenues, the original budget and the final budget was due to normal budgeting practices and less revenues being received than anticipated for the fiscal year.

The actual expenditures of the general fund were \$11,133,203, which is below the original and final budget estimates of \$11,373,733 and \$11,212,397, respectively. The variance between the actual expenditures, the original budget and the final budget was mostly the result of fluctuations in various expenses.

The General Fund had total revenues of \$11,124,546 and total expenditures of \$11,133,203 with an ending fund balance of \$2,985,619.

TAWAS AREA SCHOOLS
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$18,000,722. The governmental funds had a net loss in fund balance of \$5,326,456. The ending fund balance for all governmental funds was \$7,353,582 which represents 41% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

CAPITAL ASSET AND LONG-TERM LIABILITY ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the District had \$25,844,209 invested in land and buildings, furniture and equipment, vehicles and buses, and software. Of this amount, \$11,095,337 in depreciation has been taken over the years. We currently have a net book value of \$14,748,872. Total additions for the year were \$5,737,762, of which, \$120,692 was construction in progress for the Clara Bolen Parking Lot Project, \$5,459,165 was construction in progress related to the High school and middle school additions & renovations bond project, \$29,000 was for the refinishing of the high school track, \$22,951 was for repositioning fiber optic wires, \$8,591 was for a firewall upgrade, and \$97,363 was for the purchase of a 2017 BlueBird bus. Total disposals for the year were \$51,000 which consisted of vehicles, all of which were fully depreciated.

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

Long-Term Debt

At June 30, 2016, the District had \$9,520,000 in bonds outstanding which represent general obligation bonds of the District. State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Notes to Financial Statements, Note 7 of this report.

Net Pension Liability

At June 30, 2016, the District's Net Pension Liability amounted to \$16,266,931. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 8 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

When adopting our 2016/2017 budget we took a conservative approach to revenue predictions and we planned expenditures known at the time. Student enrollment for budgeting purposes was estimated based on predictions and enrollment history. Amendments will be made in the fall to adjust to the States promise of School Aid Funds for the upcoming school year.

TAWAS AREA SCHOOLS
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

REQUESTS FOR INFORMATION

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

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

TAWAS AREA SCHOOLS
Losco County, Michigan

STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 8,183,026
Receivables:	
Accounts, Net	612
Due From Other Governmental Units	1,202,785
Inventory:	
Supplies	2,749
Building Trades Lots	10,793
Prepaid Expenses	40,000
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 5)	6,050,823
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>8,698,049</u>
 Total Assets	 <u>24,188,837</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability (Note 8)	<u>2,008,827</u>
<u>Liabilities</u>	
Accounts Payable	1,113,387
Due to Other Units	127,071
Interest Payable	50,881
Payroll Deductions and Withholdings	211,679
Accrued Expenses	24,799
Salaries Payable	604,288
Unearned Revenue - At Risk	5,159
Long-Term Liabilities	
Due within one year (Note 7)	305,492
Due in more than one year (Note 7)	9,290,708
Net Pension Liability (Note 8)	<u>16,266,931</u>
 Total Liabilities	 <u>28,000,395</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability (Note 8)	<u>498,013</u>
<u>Net Position</u>	
Net Investment in Capital Assets	9,809,422
Restricted For:	
Debt Retirement	52,777
Capital Projects	4,311,074
Unrestricted (Deficit)	<u>(16,474,017)</u>
 Total Net Position	 <u>\$ (2,300,744)</u>

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

TAWAS AREA SCHOOLS
Losco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 7,383,071	\$ 38,618	\$ 1,348,595	\$ 0	\$ (5,995,858)
Support Services	3,742,212	82,636	43,791	37,288	(3,578,497)
Community Services	15,716	4,383	0	0	(11,333)
Athletics	284,449	104,961	0	0	(179,488)
Food Services	628,754	169,463	411,226	0	(48,065)
Interest on Long-Term Debt	<u>351,732</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(351,732)</u>
 Total	 <u>\$ 12,405,934</u>	 <u>\$ 400,061</u>	 <u>\$ 1,803,612</u>	 <u>\$ 37,288</u>	 <u>(10,164,973)</u>
General Revenues:					
Property Taxes, Levied for General Purposes					4,409,268
Property Taxes, Levied for Debt Purposes					592,520
Property Taxes, Levied for Sinking Fund Purposes					242,855
State School Aid - Unrestricted					4,633,150
Investment Earnings					22,350
Miscellaneous					<u>6,291</u>
Total General Revenues					<u>9,906,434</u>
 Change in Net Position					 (258,539)
 Net Position - Beginning					 <u>(2,042,205)</u>
 Net Position - Ending					 <u>\$ (2,300,744)</u>

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents (Note 3)	\$ 2,746,342	\$ 4,544,333	\$ 892,351	\$ 8,183,026
Receivables:				
Accounts, Net	533	0	79	612
Due From Other Governmental Units	1,153,067	37,787	11,931	1,202,785
Due from Other Funds (Note 4)	11,097	0	0	11,097
Inventory:				
Supplies	0	0	2,749	2,749
Building Trades Lots	10,793	0	0	10,793
Prepaid Expenses	<u>40,000</u>	<u>0</u>	<u>0</u>	<u>40,000</u>
 Total Assets	 <u>\$ 3,961,832</u>	 <u>\$ 4,582,120</u>	 <u>\$ 907,110</u>	 <u>\$ 9,451,062</u>
<u>Liabilities</u>				
Accounts Payable	\$ 32,008	\$ 963,475	\$ 117,904	\$ 1,113,387
Due to Other Governmental Units	127,071	0	0	127,071
Due to Other Funds (Note 4)	0	11,097	0	11,097
Payroll Deductions and Withholdings	201,948	0	9,731	211,679
Accrued Expenditures	24,799	0	0	24,799
Salaries Payable	585,228	0	19,060	604,288
Unearned Revenue - At Risk	<u>5,159</u>	<u>0</u>	<u>0</u>	<u>5,159</u>
Total Liabilities	<u>976,213</u>	<u>974,572</u>	<u>146,695</u>	<u>2,097,480</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	10,793	0	2,749	13,542
Prepaid Expenses	40,000	0	0	40,000
Restricted For:				
Debt Retirement	0	0	52,777	52,777
Capital Projects	0	3,607,548	703,526	4,311,074
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	1,363	1,363
2016/2017 Budgeted Expenditures	357,888	0	0	357,888
Unassigned	<u>2,081,938</u>	<u>0</u>	<u>0</u>	<u>2,081,938</u>
Total Fund Equity	<u>2,985,619</u>	<u>3,607,548</u>	<u>760,415</u>	<u>7,353,582</u>
 Total Liabilities and Fund Equity	 <u>\$ 3,961,832</u>	 <u>\$ 4,582,120</u>	 <u>\$ 907,110</u>	 <u>\$ 9,451,062</u>

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

TAWAS AREA SCHOOLS
Losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2016

Total Governmental Fund Balances		\$ 7,353,582
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:</p>		
Capital Asset Cost	\$ 25,844,209	
Capital Asset Accumulated Depreciation	<u>(11,095,337)</u>	14,748,872
Accrued interest on long-term liabilities		(50,881)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	2,008,827	
Deferred inflows of resources resulting from net pension liability	<u>(498,013)</u>	1,510,814
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Bonds Payable (Net of Unamortized Discount)	(9,483,783)	
Compensated Absences Payable	(89,816)	
Incurred But Not Reported Benefit Claims	(22,601)	
Net Pension Liability	<u>(16,266,931)</u>	<u>(25,863,131)</u>
Total Net Position - Governmental Activities		<u>\$ (2,300,744)</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, 2016

	General Fund	Capital Projects Fund Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local Sources	\$ 4,625,256	\$ 93,744	\$ 1,006,963	\$ 5,725,963
State Sources	6,001,076	0	52,734	6,053,810
Federal Sources	446,370	37,787	358,492	842,649
Interdistrict Sources	51,844	0	0	51,844
Total Revenue	11,124,546	131,531	1,418,189	12,674,266
<u>Expenditures</u>				
Current:				
Instruction	6,918,867	0	0	6,918,867
Support Services	3,639,295	0	0	3,639,295
Community Services	14,777	0	0	14,777
Food Services	0	0	590,191	590,191
Athletics	266,039	0	0	266,039
Capital Outlay	294,225	5,576,321	150,117	6,020,663
Debt Service:				
Principal Retirement	0	0	200,000	200,000
Interest and Fees on Long-Term Debt	0	0	350,890	350,890
Total Expenditures	11,133,203	5,576,321	1,291,198	18,000,722
Excess of Revenue Over (Under) Expenditures	(8,657)	(5,444,790)	126,991	(5,326,456)
Fund Balances - Beginning of Year	2,994,276	9,052,338	633,424	12,680,038
Fund Balances - End of Year	\$ 2,985,619	\$ 3,607,548	\$ 760,415	\$ 7,353,582

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

TAWAS AREA SCHOOLS
Losco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds \$ (5,326,456)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current Year Depreciation Expense	\$ (434,597)	
Capital Outlays Reported in the Governmental Funds	<u>5,737,762</u>	5,303,165

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

Net Pension Liability	(1,921,420)	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	481,344	
Deferred Inflows on Net Pension Liability	<u>1,087,891</u>	(352,185)

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

Bonds Payable		200,000
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Governmental funds report the effect of discounts and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Amortization of Deferred Bond Discounts		(1,509)
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Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effects of the treatment of these activities are as follows:

Interest	667	
Compensated Absences	(3,728)	
Incurred But Not Reported Benefit Claims	<u>4,247</u>	1,186

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

State of Michigan Receivable		<u>(82,740)</u>
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Change in Net Position of Governmental Activities		<u>\$ (258,539)</u>
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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, 2016

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ <u>164,194</u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u>164,194</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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

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

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

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

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions:

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

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

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

Deferred Outflows/Inflows of Resources:

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

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

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

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

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2016, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

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

F. Receivables

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

The allowance for doubtful accounts at June 30, 2016 was \$0.

G. Due From Other Governmental Units

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

H. Prepaid Items

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

I. Inventory – Supplies

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

J. Inventory - Building Trades Lots

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

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

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

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

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Site Improvements	20 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years
Software	5 - 10 years

L. Interfund Balances

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

M. Accrued Liabilities and Long-Term Obligations

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

N. Compensated Absences

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences (Continued)

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

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2016.

O. Net Pension Liability

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

P. Net Position

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

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

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

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

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

Q. Fund Balances

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance (Continued)

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

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

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

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

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

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

R. Property Taxes

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

S. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2016, the foundation allowance was based on the average of pupil membership counts taken in October of 2015 and February of 2015.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Foundation Revenue (Continued)

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified and commercial property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2015 - August, 2016. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

T. State Categorical Revenue

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

U. Interfund Activity

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

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2016.

W. Economic Dependency

The School District received approximately 48% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

X. Use of Estimates

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

Y. Budgetary Policies and Data

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Budgetary Policies and Data (Continued)

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

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

Z. Reclassifications

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 72, "Fair Value Measurement and Application" and Number 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB Statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost.

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents	\$ 8,183,026	\$ 164,194	\$ 8,347,220

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking Accounts)	\$ 362,600
Investments in Pooled Funds	7,983,920
Petty Cash and Cash on Hand	700
Total	\$ 8,347,220

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2016, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ <u>7,983,920</u>	Daily

Interest Rate Risk

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

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2016, the School District's investment in the Cadre Consulting Service, Inc. managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2016, \$1,335,050 of the School District's bank balance of \$1,605,050 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

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

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

Foreign Currency Risk

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

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2016 were as follows:

	<u>DUE FROM</u>
<u>DUE TO</u>	Construction Fund
General Fund	\$ <u>11,097</u>

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Construction in Progress	<u>423,243</u>	<u>5,579,857</u>	<u>(102,802)</u>	<u>5,900,298</u>
Subtotal	<u>573,768</u>	<u>5,579,857</u>	<u>(102,802)</u>	<u>6,050,823</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	14,211,728	0	0	14,211,728
Site Improvements	2,918,921	34,600	0	2,953,521
Furniture, Fixtures and Equipment	913,312	128,744	0	1,042,056
Vehicles and Buses	1,498,518	97,363	(51,000)	1,544,881
Software	<u>41,200</u>	<u>0</u>	<u>0</u>	<u>41,200</u>
Subtotal	<u>19,583,679</u>	<u>260,707</u>	<u>(51,000)</u>	<u>19,793,386</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,635,032)	(271,234)	0	(6,906,266)
Site Improvements	(2,079,992)	(61,883)	0	(2,141,875)
Furniture, Fixtures and Equipment	(823,262)	(20,022)	0	(843,284)
Vehicles and Buses	<u>(1,173,454)</u>	<u>(81,458)</u>	<u>51,000</u>	<u>(1,203,912)</u>
Subtotal	<u>(10,711,740)</u>	<u>(434,597)</u>	<u>51,000</u>	<u>(11,095,337)</u>
Capital Assets Being Depreciated	<u>8,871,939</u>	<u>(173,890)</u>	<u>0</u>	<u>8,698,049</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,445,707</u>	<u>\$ 5,405,967</u>	<u>\$ (102,802)</u>	<u>\$ 14,748,872</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities

Instruction	\$	266,322
Support Services		134,876
Community Services		566
Athletics		10,208
Food Services		<u>22,625</u>
	\$	<u><u>434,597</u></u>

NOTE 6 - SHORT-TERM DEBT

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

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2016.

NOTE 7 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
2015 School Building and Site Bonds:				
The bonds, dated March 5, 2015, which bear interest from 2.00% to 4.00%, are due serially each November 1 and May 1 through 2041				
	2015	\$ <u>9,520,000</u>	\$ <u>4,460,388</u>	\$ <u>13,980,388</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2016 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 280,000	\$ 298,388	\$ 578,388
2018	285,000	292,687	577,687
2019	290,000	286,938	576,938
2020	300,000	281,037	581,037
2021	305,000	274,938	579,938
2022 - 2026	1,675,000	1,234,312	2,909,312
2027 - 2031	1,940,000	962,238	2,902,238
2032 - 2036	2,300,000	622,162	2,922,162
2037 - 2041	<u>2,145,000</u>	<u>207,688</u>	<u>2,352,688</u>
Totals	<u>\$ 9,520,000</u>	<u>\$ 4,460,388</u>	<u>\$ 13,980,388</u>

TAWAS AREA SCHOOLS
losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for Tawas Area Schools was \$89,816 at June 30, 2016, of which \$4,400 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, 2016 are as follows:

	6/30/2016
Claims Liability, Beginning of Year	\$ 26,848
Claims and Damages Incurred	221,682
Claims Payments	(225,929)
Claims Liability, End of Year	\$ 22,601

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, 2016:

	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016	Amount Due in One Year
<u>Governmental Activities</u>					
Bonds	\$ 9,720,000	\$ 0	\$ (200,000)	\$ 9,520,000	\$ 280,000
Deferred Amounts for Issuance Discount	(37,726)	0	1,509	(36,217)	(1,509)
Total Bonds Payable, Net	9,682,274	0	(198,491)	9,483,783	278,491
Compensated Absences Incurred but not Reported Benefit Claims	86,088	3,728 *	0	89,816	4,400
	26,848	221,682	(225,929)	22,601	22,601
Total Long-Term Liabilities	\$ 9,795,210	\$ 225,410	\$ (424,420)	\$ 9,596,200	\$ 305,492

*Represents net of additions and retirements for the year.

The interest expense on long-term obligations for the year was \$351,732.

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PLAN

Organization

Plan Description

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

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

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

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

Contributions and Funding Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

Contributions and Funding Status (Continued)

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	22.52 - 23.07%
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

Required contributions to the pension plan from the School District were \$1,284,790 for the year ended September 30, 2015.

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

At June 30, 2016, the School District reported a liability of \$16,266,931 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The School District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the School District's proportionate share percent was 0.06660%, which was an increase of 0.00147% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,449,049. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 53,881
Change of assumptions	400,526	0
Net difference between projected and actual earnings on pension plan investments	83,030	0
Changes in proportion and differences between School District contributions and proportionate share of contributions	275,507	1
School District contributions subsequent to the measurement date	1,249,764	0
Total	\$ 2,008,827	\$ 53,882

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

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

In addition to the deferred inflows of resources noted above, the District also has \$444,131 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$805,633 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year	
Year Ended June 30	Amount
2016	\$ 925,424
2017	119,792
2018	98,075
2019	367,523
	\$ 1,510,814

Actuarial Valuations and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- λ Valuation Date: September 30, 2014
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 3.5%
- λ Investment Rate of Returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plans Plan (Hybrid): 7.0%
- λ Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- λ Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

Actuarial Valuations and Assumptions (Continued)

- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return On Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

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

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

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PLAN (CONTINUED)

Discount Rate

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

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

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

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 20,972,244	\$ 16,266,931	\$ 12,300,159

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR:
www.michigan.gov/documents/orsschool/MPERS_CAFR_2015_Final_510211_7.pdf

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

At June 30, 2016, there were reported payables to MPERS of \$272,963, which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

NOTE 9 - DEFERRED COMPENSATION PLANS

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 9 - DEFERRED COMPENSATION PLAN (CONTINUED)

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$17,053 for the year ended June 30, 2016.

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 \$161,230 for the year ended June 30, 2016. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 10 - DEFINED CONTRIBUTION PLAN

Plan Description

The School District's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

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

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

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

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.

TAWAS AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Funding Policy (Continued)

- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2016, the School District contributed \$26,171 on behalf of eligible employees. Employee contributions amounted to \$44,271 for eligible employees.

NOTE 11 - 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 \$2,052 as of June 30, 2016.

NOTE 12 - BONDED CONSTRUCTION FUND AND SINKING FUND

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

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

NOTE 13 - 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 14 - GOVERNMENTAL REGULATION

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 15 - COMMITMENTS

The School District had contractual commitments in the amount of \$2,991,673 outstanding at June 30, 2016 for construction related to the Building Renovation Project, the Clara Bolen Parking Lot Project, the E-grant Switch Replacement and the Water Main Construction Project, as follows:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at June 30, 2016</u>	<u>Contract Payable at June 30, 2016</u>
Building Renovation Project:			
Architect Contract	\$ 484,335	\$ 37,346	\$ 11,991
Construction Manager Contract	392,800	90,650	30,215
Individually Awarded Contracts	7,289,923	2,423,603	916,538
Clara Bolen Parking Lot Project	313,706	195,914	117,792
E-Grant Switch Replacement	45,913	45,913	0
Water Main Construction Project	<u>198,247</u>	<u>198,247</u>	<u>0</u>
	<u>\$ 8,724,924</u>	<u>\$ 2,991,673</u>	<u>\$ 1,076,536</u>

NOTE 16 - 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, 2016, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

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

NOTE 17 - SUBSEQUENT EVENTS

On July 28, 2016, the School District entered into an agreement with the United States Department of Agriculture for a Loan of \$184,000 at 2.25% interest for 40 years, as well as for a federal grant up to \$149,000 for the costs associated with Water Main Project.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS
losco County, Michigan

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

	2016		2015
School District's proportion of net pension liability (%)	0.06660%		0.06513%
School District's proportionate share of net pension liability	\$ 16,266,931	\$	14,345,511
School District's covered-employee payroll	\$ 5,552,237	\$	5,585,135
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	292.98%		256.85%
Plan fiduciary net position as a percentage of total pension liability	63.17%		66.20%

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

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

TAWAS AREA SCHOOLS
Losco County, Michigan

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

	2016	2015
Statutorily required contributions	\$ 1,529,575	\$ 1,261,049
Contributions in relation to statutorily required contributions*	1,529,575	1,261,049
Contribution deficiency (excess)	\$ 0	\$ 0
 School District's covered-employee payroll	\$ 5,486,840	\$ 5,607,009
 Contributions as a percentage of covered-employee payroll	27.88%	22.49%

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

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

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

TAWAS AREA SCHOOLS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 4,560,959	\$ 4,638,385	\$ 4,625,256	\$ (13,129)
State Sources	5,867,243	6,010,482	6,001,076	(9,406)
Federal Sources	511,091	445,443	446,370	927
Interdistrict Sources	49,027	51,845	51,844	(1)
Total Revenue	<u>10,988,320</u>	<u>11,146,155</u>	<u>11,124,546</u>	<u>(21,609)</u>
<u>Expenditures</u>				
Current:				
Instruction	7,040,454	6,959,087	6,918,867	40,220
Support Services	3,702,966	3,674,312	3,639,295	35,017
Community Services	18,261	14,789	14,777	12
Athletics	249,376	266,042	266,039	3
Capital Outlay	362,676	298,167	294,225	3,942
Total Expenditures	<u>11,373,733</u>	<u>11,212,397</u>	<u>11,133,203</u>	<u>79,194</u>
Excess of Revenue Over (Under) Expenditures	(385,413)	(66,242)	(8,657)	57,585
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out	<u>(25,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(410,413)	(66,242)	(8,657)	57,585
Fund Balances - Beginning of Year	<u>2,994,276</u>	<u>2,994,276</u>	<u>2,994,276</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 2,583,863</u>	<u>\$ 2,928,034</u>	<u>\$ 2,985,619</u>	<u>\$ 57,585</u>

OTHER INFORMATION

TAWAS AREA SCHOOLS
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2016

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>	<u>2015 School Building and Site Bonds Fund</u>	<u>Sinking Fund</u>	
<u>Assets</u>				
Cash and Cash Equivalents	\$ 18,256	\$ 52,777	\$ 821,318	\$ 892,351
Receivables:				
Accounts, Net	79	0	0	79
Due From Other Governmental Units	11,931	0	0	11,931
Inventory:				
Supplies	<u>2,749</u>	<u>0</u>	<u>0</u>	<u>2,749</u>
Total Assets	<u>\$ 33,015</u>	<u>\$ 52,777</u>	<u>\$ 821,318</u>	<u>\$ 907,110</u>
<u>Liabilities</u>				
Accounts Payable	\$ 112	\$ 0	\$ 117,792	\$ 117,904
Payroll Deductions and Withholdings	9,731	0	0	9,731
Salaries Payable	<u>19,060</u>	<u>0</u>	<u>0</u>	<u>19,060</u>
Total Liabilities	<u>28,903</u>	<u>0</u>	<u>117,792</u>	<u>146,695</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	2,749	0	0	2,749
Restricted For:				
Debt Retirement	0	52,777	0	52,777
Capital Projects	0	0	703,526	703,526
Assigned To:				
Food Service	<u>1,363</u>	<u>0</u>	<u>0</u>	<u>1,363</u>
Total Fund Equity	<u>4,112</u>	<u>52,777</u>	<u>703,526</u>	<u>760,415</u>
Total Liabilities and Fund Equity	<u>\$ 33,015</u>	<u>\$ 52,777</u>	<u>\$ 821,318</u>	<u>\$ 907,110</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	Special Revenue Fund	Debt Retirement Fund	Capital Projects Fund	Total Other Governmental Funds
	Lunch Fund	2015 School Building and Site Bonds Fund	Sinking Fund	
<u>Revenue</u>				
Local Sources	\$ 169,543	\$ 592,697	\$ 244,723	\$ 1,006,963
State Sources	52,734	0	0	52,734
Federal Sources	358,492	0	0	358,492
Total Revenue	580,769	592,697	244,723	1,418,189
<u>Expenditures</u>				
Current:				
Food Services	590,191	0	0	590,191
Capital Outlay	0	0	150,117	150,117
Debt Service:				
Principal Retirement	0	200,000	0	200,000
Interest and Fees on Long-Term Debt	0	350,890	0	350,890
Total Expenditures	590,191	550,890	150,117	1,291,198
Net Change in Fund Balances	(9,422)	41,807	94,606	126,991
Fund Balances - Beginning of Year	13,534	10,970	608,920	633,424
Fund Balances - End of Year	\$ 4,112	\$ 52,777	\$ 703,526	\$ 760,415

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016</u> <u>Amended</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
<u>Local Sources</u>			
Current Property Taxes	\$ 4,425,813	\$ 4,409,268	\$ 4,379,480
Tuition	3,885	4,383	2,611
Summer School Tuition	3,858	3,857	4,540
Transportation Fees	53,013	53,013	38,741
Gate Receipts	66,983	66,983	55,274
Interest on Investments	8,414	8,722	1,328
Rents	3,741	3,741	3,741
Medicaid Fee for Service	22,000	34,761	25,514
Miscellaneous Local Sources	<u>50,678</u>	<u>40,528</u>	<u>31,403</u>
	<u>4,638,385</u>	<u>4,625,256</u>	<u>4,542,632</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,492,153	4,492,150	4,547,348
Isolated Districts	54,067	54,065	0
Special Education	252,020	252,019	233,916
At Risk	494,153	485,069	336,622
Technology Infrastructure	9,553	9,552	15,025
Best Practices	0	0	67,913
MPSERS UAAL Rate Stabilization	619,508	619,508	457,606
Other MPSERS State Aid	79,178	79,177	90,739
Miscellaneous State Sources	<u>9,850</u>	<u>9,536</u>	<u>4,545</u>
	<u>6,010,482</u>	<u>6,001,076</u>	<u>5,753,714</u>
<u>Federal Sources</u>			
ECIA Title I	338,421	338,192	302,723
ECIA Title II- Improving Teacher Quality	74,560	74,546	79,858
ECIA Title VI	23,546	23,546	23,286
Medicaid Outreach	0	1,171	1,346
Schools and Roads Grant Funds	<u>8,916</u>	<u>8,915</u>	<u>9,072</u>
	<u>445,443</u>	<u>446,370</u>	<u>416,285</u>
<u>Interdistrict Sources</u>			
Vocational Education	22,222	22,221	26,498
Services Provided to Other Public Schools	29,623	29,623	29,326
Technology Improvements	<u>0</u>	<u>0</u>	<u>21,895</u>
	<u>51,845</u>	<u>51,844</u>	<u>77,719</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	<u>0</u>	<u>0</u>	<u>6,921</u>
Total Revenue and Other Financing Sources	<u>\$ 11,146,155</u>	<u>\$ 11,124,546</u>	<u>\$ 10,797,271</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016</u> <u>Amended</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,144,848	\$ 1,144,767	\$ 1,123,138
Employee Benefits	856,369	841,758	766,538
Purchased Services	39,842	39,517	49,319
Supplies, Materials and Other	<u>22,186</u>	<u>22,134</u>	<u>20,904</u>
	<u>2,063,245</u>	<u>2,048,176</u>	<u>1,959,899</u>
Junior High School			
Salaries	664,707	664,703	650,027
Employee Benefits	521,472	513,139	473,390
Purchased Services	26,859	26,416	27,894
Supplies, Materials and Other	<u>10,497</u>	<u>10,436</u>	<u>9,093</u>
	<u>1,223,535</u>	<u>1,214,694</u>	<u>1,160,404</u>
High School			
Salaries	1,283,152	1,283,150	1,285,035
Employee Benefits	911,265	896,786	855,218
Purchased Services	58,615	57,708	48,850
Supplies, Materials and Other	<u>31,814</u>	<u>31,504</u>	<u>67,833</u>
	<u>2,284,846</u>	<u>2,269,148</u>	<u>2,256,936</u>
Summer School			
Salaries	6,506	6,506	11,781
Employee Benefits	<u>2,725</u>	<u>2,721</u>	<u>4,832</u>
	<u>9,231</u>	<u>9,227</u>	<u>16,613</u>
Total Basic Programs	<u>5,580,857</u>	<u>5,541,245</u>	<u>5,393,852</u>
Added Needs:			
Special Education			
Salaries	451,782	451,778	449,176
Employee Benefits	276,291	275,990	258,623
Purchased Services	<u>40,402</u>	<u>40,396</u>	<u>60,923</u>
	<u>768,475</u>	<u>768,164</u>	<u>768,722</u>
Compensatory Education			
Salaries	216,877	216,873	208,806
Employee Benefits	135,890	135,667	117,795
Purchased Services	0	0	1,407
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>6,228</u>
	<u>352,767</u>	<u>352,540</u>	<u>334,236</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 82,195	\$ 82,186	\$ 55,639
Employee Benefits	53,030	52,971	34,202
Purchased Services	113,037	113,036	116,880
Supplies, Materials and Other	<u>8,726</u>	<u>8,725</u>	<u>8,214</u>
	<u>256,988</u>	<u>256,918</u>	<u>214,935</u>
 Total Added Needs	 <u>1,378,230</u>	 <u>1,377,622</u>	 <u>1,317,893</u>
 Total Instruction	 <u>6,959,087</u>	 <u>6,918,867</u>	 <u>6,711,745</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	86,208	86,208	83,555
Employee Benefits	59,387	59,270	57,892
Purchased Services	75	75	0
Supplies, Materials and Other	<u>2,202</u>	<u>2,202</u>	<u>314</u>
	<u>147,872</u>	<u>147,755</u>	<u>141,761</u>
 Health Services			
Purchased Services	<u>3,582</u>	<u>2,958</u>	<u>6,998</u>
 Psychological Services			
Purchased Services	<u>1,975</u>	<u>2,765</u>	<u>5,255</u>
 Speech			
Salaries	64,173	64,171	64,171
Employee Benefits	45,300	45,238	43,545
Purchased Services	73	73	0
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>795</u>
	<u>109,546</u>	<u>109,482</u>	<u>108,511</u>
 Social Work			
Salaries	123,616	123,610	120,159
Employee Benefits	83,252	83,178	83,718
Purchased Services	<u>69</u>	<u>69</u>	<u>0</u>
	<u>206,937</u>	<u>206,857</u>	<u>203,877</u>
 Total Pupil Services	 <u>469,912</u>	 <u>469,817</u>	 <u>466,402</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff:			
Instructional Improvement			
Salaries	\$ 15,899	\$ 15,899	\$ 0
Employee Benefits	7,228	7,226	0
Purchased Services	<u>16,744</u>	<u>16,744</u>	<u>37,682</u>
	<u>39,871</u>	<u>39,869</u>	<u>37,682</u>
Library Services			
Salaries	35,382	35,380	34,534
Employee Benefits	19,464	19,442	16,748
Purchased Services	1,342	1,341	1,171
Supplies, Materials and Other	<u>4,205</u>	<u>4,202</u>	<u>7,329</u>
	<u>60,393</u>	<u>60,365</u>	<u>59,782</u>
Director of Instruction			
Salaries	20,500	20,500	0
Supplies, Materials and Other	<u>6,500</u>	<u>6,213</u>	<u>2,765</u>
	<u>27,000</u>	<u>26,713</u>	<u>2,765</u>
Academic Student Assessment			
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>35</u>
Total Instructional Staff	<u>127,264</u>	<u>126,947</u>	<u>100,264</u>
General Administration:			
Board of Education			
Salaries	5,200	5,530	8,970
Purchased Services	<u>54,895</u>	<u>40,198</u>	<u>54,734</u>
	<u>60,095</u>	<u>45,728</u>	<u>63,704</u>
Executive Administration			
Salaries	161,864	161,863	166,601
Employee Benefits	101,582	101,530	162,912
Purchased Services	30,655	30,577	29,707
Supplies, Materials and Other	<u>13,431</u>	<u>13,209</u>	<u>21,586</u>
	<u>307,532</u>	<u>307,179</u>	<u>380,806</u>
Total General Administration	<u>367,627</u>	<u>352,907</u>	<u>444,510</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	2016 Amended Budget	2016 Actual	2015 Actual
<u>Support Services (Continued)</u>			
School Administration:			
Office of the Principal			
Salaries	\$ 460,367	\$ 460,361	\$ 454,521
Employee Benefits	319,487	319,373	291,120
Purchased Services	4,447	4,445	1,648
Supplies, Materials and Other	<u>29,115</u>	<u>29,122</u>	<u>26,876</u>
	<u>813,416</u>	<u>813,301</u>	<u>774,165</u>
Other Administration			
Purchased Services	<u>0</u>	<u>1,935</u>	<u>0</u>
Total School Administration	<u>813,416</u>	<u>815,236</u>	<u>774,165</u>
Business:			
Fiscal Services			
Salaries	117,062	117,062	116,475
Employee Benefits	83,292	83,239	83,448
Purchased Services	29,031	29,030	28,409
Other Expenditures	<u>16,545</u>	<u>0</u>	<u>2,131</u>
	<u>245,930</u>	<u>229,331</u>	<u>230,463</u>
Operations and Maintenance:			
Salaries	272,259	272,258	262,865
Employee Benefits	211,282	210,569	190,415
Purchased Services	426,415	424,523	422,557
Supplies, Materials and Other	<u>45,459</u>	<u>45,530</u>	<u>35,932</u>
	<u>955,415</u>	<u>952,880</u>	<u>911,769</u>
Transportation:			
Salaries	208,490	208,346	236,362
Employee Benefits	141,351	139,183	117,524
Purchased Services	83,220	83,319	77,879
Supplies, Materials and Other	<u>96,748</u>	<u>96,613</u>	<u>109,285</u>
	<u>529,809</u>	<u>527,461</u>	<u>541,050</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Support Services</u> (Continued)			
Central Services:			
Salaries	\$ 18,738	\$ 18,738	\$ 18,738
Employee Benefits	12,085	12,082	12,471
Purchased Services	0	0	636
Supplies, Materials and Other	<u>5,850</u>	<u>5,850</u>	<u>0</u>
	<u>36,673</u>	<u>36,670</u>	<u>31,845</u>
Technology:			
Salaries	53,712	53,556	57,501
Employee Benefits	27,745	27,676	32,892
Purchased Services	<u>46,809</u>	<u>46,814</u>	<u>18,844</u>
	<u>128,266</u>	<u>128,046</u>	<u>109,237</u>
Total Support Services	<u>3,674,312</u>	<u>3,639,295</u>	<u>3,609,705</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	6,570	6,570	7,248
Employee Benefits	5,673	5,661	6,252
Purchased Services	2,546	2,546	2,762
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>500</u>
Total Community Services	<u>14,789</u>	<u>14,777</u>	<u>16,762</u>
<u>Athletics</u>			
Salaries	26,536	26,535	29,414
Employee Benefits	12,026	12,024	12,472
Equipment and Supplies	292	292	370
Purchased Services	190,070	190,070	190,211
Other Expenditures	<u>37,118</u>	<u>37,118</u>	<u>17,331</u>
Total Athletics	<u>266,042</u>	<u>266,039</u>	<u>249,798</u>
<u>Capital Outlay</u>			
Instruction	58,108	52,957	64,121
Support Services	218,043	219,252	229,366
Athletics	<u>22,016</u>	<u>22,016</u>	<u>13,430</u>
Total Capital Outlay	<u>298,167</u>	<u>294,225</u>	<u>306,917</u>
<u>Operating Transfers Out</u>			
Food Service Fund	<u>0</u>	<u>0</u>	<u>15,000</u>
Total Expenditures	<u>\$ 11,212,397</u>	<u>\$ 11,133,203</u>	<u>\$ 10,909,927</u>



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TAWAS AREA SCHOOLS
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2016

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Robert J. Morand, CPA

September 6, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements and have issued our report thereon dated September 6, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2016-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. 2016-002.

Compliance and Other Matters

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

Tawas Area Schools' Response to Findings

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

Purpose of this Report

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

Stephenson, Grain & Co., P.C.



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

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

September 6, 2016

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

Board of Education
Tawas Area Schools
Iosco County, Michigan

Report on Compliance for Each Major Federal Program

We have audited Tawas Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Tawas Area Schools' major federal programs for the year ended June 30, 2016. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tawas Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tawas Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Tawas Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Tawas Area Schools' basic financial statements. We issued our report thereon dated September 6, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stephenson, Grain & Co., P.C.

TAWAS AREA SCHOOLS
Losco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

Findings - Financial Statements Audit

2015-001

Financial Statement Preparation

Tawas Area Schools relies on their Independent Audit Firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The situation still exists. See the current year finding 2016-001 for details.

2015-002

Lack of Sufficient Support for Activity Fund Transactions

The District did not have policies or procedures in place requiring that third party/independent verification of participation be included as part of the activity reconciliation process.

Although significant 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 2016-002.

Findings and Questioned Costs - Major Federal Award Programs Audit

2015-003

Title I - Cash Management

Tawas Area Schools charged virtual transfer amounts to the wrong grant and did not realize that their prior period adjustment would cause them to draw expenses a second time.

The situation has been corrected. The Title I Director now reviews all expenditures being requested for federal reimbursement to ensure that they are drawn on the correct grant and only drawn once in the case of any future prior period adjustments.

TAWAS AREA SCHOOLS
losco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Tawas Area Schools.
2. One material weakness and one significant deficiency in internal control relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Tawas Area Schools, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for Tawas Area Schools are reported in this schedule.
7. The programs tested as major programs included: Title I, CFDA #84.010.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Tawas Area Schools does not qualify as a low-risk auditee.

Findings - Financial Statement Audit

2016-001

Financial Statement Preparation

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

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Findings - Financial Statement Audit (Continued)

2016-001

Financial Statement Preparation (Continued)

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

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

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

Views of Responsible Officials and Planned Corrective Actions: The District understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefit outweighs the risk itself. However, the District mitigates this risk by striving to not have any adjusting journal entries proposed by the auditor at year end. In addition, the 2016 PPC Governmental Disclosure Checklist is received and reviewed by the Business Manager and the Business Manager also uses the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the “Blue Book”), to assist with the disclosures required for the financial statements.

2016-002

Lack of Sufficient Support for Activity Fund Transactions

Condition and Criteria: Proper internal control mandates that proper oversight be conducted regarding the completeness of all District deposits. Currently, only one individual is verifying the money taken in at an Activity Fund event.

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

Cause: The District does not require that two individuals be present and verify the money being taken in at an Activity Fund event.

Context: Tawas Area Schools does currently have procedures in place requiring that third party/independent verification of participation be included as part of the activity reconciliation process. However, when the amounts being collected cannot be supported by a third party/independent process, there is no alternate requirement of having two individuals present to verify that the money being taken in is complete.

Auditors' Recommendation: We recommend that management implement procedures requiring two individuals be present during the counting of cash funds received at an event, and that both individuals sign the activity's cash count sheet, verifying the amount collected

TAWAS AREA SCHOOLS
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Findings - Financial Statement Audit (Continued)

2016-002 Lack of Sufficient Support for Activity Fund Transactions (Continued)

Views of Responsible Officials and Planned Corrective Actions: The Business Office will begin requiring that two individuals be present during the counting of cash funds received at an event, and that both individuals sign the activity's cash count sheet, verifying the amount collected, to ensure that the proper amount was deposited.

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, 2016.

TAWAS AREA SCHOOLS

Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

<u>Federal Grantor or Pass Through Grantor Program Title/Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>U.S. Department of Agriculture</u>							
Passed through the Michigan Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance:							
Food Distribution							
55030 Entitlement Commodities	10.555	\$ 34,048	\$ 0	\$ 0	\$ 34,048	\$ 34,048	\$ 0
Cash Assistance:							
School Breakfast Program							
151970 2014-2015	10.553	82,477	75,405	0	7,072	7,072	0
161970 2015-2016		75,391	0	0	75,391	75,391	0
		<u>157,868</u>	<u>75,405</u>	<u>0</u>	<u>82,463</u>	<u>82,463</u>	<u>0</u>
National School Lunch Program							
Section 11 - Free and Reduced							
151960 2014-2015	10.555	243,256	219,765	0	23,491	23,491	0
151980 2014-2015		53	0	0	53	53	0
161960 2015-2016		216,379	0	0	216,380	216,380	0
161980 2015-2016		2,057	0	0	2,057	2,057	0
		<u>461,745</u>	<u>219,765</u>	<u>0</u>	<u>241,981</u>	<u>241,981</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>		<u>619,613</u>	<u>295,170</u>	<u>0</u>	<u>324,444</u>	<u>324,444</u>	<u>0</u>
Total Child Nutrition Cluster		<u>653,661</u>	<u>295,170</u>	<u>0</u>	<u>358,492</u>	<u>358,492</u>	<u>0</u>
Passed through Iosco County:							
Schools and Roads Grants Funds							
	10.665	<u>8,915</u>	<u>0</u>	<u>0</u>	<u>8,915</u>	<u>8,915</u>	<u>0</u>
Direct Award:							
Water and Waste Loans and Grants							
	10.760	<u>333,000</u>	<u>0</u>	<u>0</u>	<u>37,787</u>	<u>0</u>	<u>37,787</u>
Total U.S. Department of Agriculture		<u>995,576</u>	<u>295,170</u>	<u>0</u>	<u>405,194</u>	<u>367,407</u>	<u>37,787</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, 2016

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, 2015	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2016
<u>U.S. Department of Education</u>							
Passed through the Michigan Department of Education:							
Title I - Grants to Local Educational Agencies							
151530 2014-2015	84.010	\$ 365,511	\$ 302,723	\$ 154,317	\$ 0	\$ 154,317	\$ 0
161530 2015-2016		347,867	0	0	338,192	308,624	29,568
		<u>713,378</u>	<u>302,723</u>	<u>154,317</u>	<u>338,192</u>	<u>462,941</u>	<u>29,568</u>
Title VI Part B, Subpart 2:							
Rural and Low-Income Grant							
150660 2014-2015	84.358B	23,286	23,286	2,692	0	2,692	0
160660 2015-2016		23,546	0	0	23,546	23,546	0
		<u>46,832</u>	<u>23,286</u>	<u>2,692</u>	<u>23,546</u>	<u>26,238</u>	<u>0</u>
Title II Part A:							
Improving Teacher Quality							
150520 2014-2015	84.367	90,629	79,858	32,262	0	32,262	0
160520 2015-2016		83,908	0	0	74,546	70,060	4,486
		<u>174,537</u>	<u>79,858</u>	<u>32,262</u>	<u>74,546</u>	<u>102,322</u>	<u>4,486</u>
Total U.S. Department of Education		<u>934,747</u>	<u>405,867</u>	<u>189,271</u>	<u>436,284</u>	<u>591,501</u>	<u>34,054</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Iosco Regional Educational Service Agency:							
Medical Assistance Program Title XIX:							
Medicaid Outreach Claims 2013-2014	93.778	1,346	1,346	1,346	0	0	1,346
Medicaid Outreach Claims 2014-2015		1,171	0	0	1,171	1,171	0
		<u>2,517</u>	<u>1,346</u>	<u>1,346</u>	<u>1,171</u>	<u>1,171</u>	<u>1,346</u>
Total Federal Financial Awards		<u>\$ 1,932,840</u>	<u>\$ 702,383</u>	<u>\$ 190,617</u>	<u>\$ 842,649</u>	<u>\$ 960,079</u>	<u>\$ 73,187</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, 2016

Note 1 - Basis of Presentation

- A. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Tawas Area Schools under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Tawas Area Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Tawas Area Schools.

Note 2 - Summary of Significant Accounting Policies

- A. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
- B. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
- C. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
- D. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
- E. Expenditures include spoilage or pilferage.
- F. Tawas Area Schools did not elect to use a flat de minimis rate of 10% of modified total direct costs for their indirect cost rate.

Note 3 - Reconciliation to Financial Statements:

General Fund	\$ 446,370
Capital Projects Fund:	
Construction Fund	37,787
Special Revenue Fund:	
Lunch Fund	<u>358,492</u>
	<u>\$ 842,649</u>



Stephenson, Gracik & Co., P.C.

Certified Public Accountants & Consultants

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September 6, 2016

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, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 13, 2016. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on July 29, 2016. 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 the Uniform Guidance

As stated in our engagement letter dated July 13, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated July 13, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, Tawas Areas Schools changed accounting policies related to investments by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 79, "Certain External Investment Pools and Pool Participants" and Fair Value Measurement by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 72, "Fair Value Measurement and Application" in 2016. The application of existing policies was not changed during 2016. We noted no transactions entered into by Tawas Area Schools 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 Tawas Area Schools' financial statements was:

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

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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 September 6, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Tawas Area Schools' 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, the Budgetary Comparison Information, and the Required Pension Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Tawas Area Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tawas Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control.

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

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

FINANCIAL STATEMENT PREPARATION CONTROLS

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

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

STUDENT ACTIVITY FUNDS

During the audit, we found that the school's activity cash count sheets, that are used to total the amount of money taken in at an event, are only signed by one individual. Although management currently has good controls in place to ensure that each student activity event is supported by a completed activity control report and progress has been made toward each activity being supported with some sort of external or third party verification (i.e., student sign in sheets, class roster, etc.), we recommend that two individuals be present during the counting of cash funds received at an event, and that both individuals sign the activity's cash count sheet, verifying the amount collected.

**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>
Financial Statement Preparation Controls		X		
Student Activity Funds			X	
Cash Management	X			