



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

TAWAS AREA SCHOOLS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2012

I_N_D_E_X

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 7
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET ASSETS	8
STATEMENT OF ACTIVITIES	9
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	10
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	11
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	12
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	13
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUND	14
NOTES TO FINANCIAL STATEMENTS	15 - 30
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	31
<u>OTHER INFORMATION</u>	
<u>COMBINING STATEMENTS - NONMAJOR FUNDS</u>	
COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	32
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	33
<u>INDIVIDUAL FUND SCHEDULES</u>	
GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	34
GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	35 - 39



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

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

August 10, 2012

Independent Auditors' Report

Board of Education
Tawas Area Schools
Iosco County, Michigan

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, 2012, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph 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 as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2012, included in the Single Audit Reports issued under 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tawas Area Schools' financial statements as a whole. 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 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stephenson, Gracik & Co., P.C.

Offices:
East Tawas
West Branch

325 Newman St., P.O. Box 592, East Tawas, MI 48730
www.stephensongracik.com
989-362-4491 • 989-362-8351 Fax

Members:
A.I.C.P.A.
M.A.C.P.A.

Tawas Area Schools

245 West M-55 • Tawas City, MI 48763
Donald S. Vernon, Superintendent
Telephone (989) 984-2250 • Fax (989) 984-2253

As management of the Tawas Area Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

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

FINANCIAL HIGHLIGHTS

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

The District realized relative stability in all governmental activities for the 2011/2012 school year. Loss in enrollment of students was fairly consistent with predictions. The cost containment strategies implemented by Administration offset the student loss and once again allowed for an increase in the District's year end Fund Balance. The states continued economic struggle does not promote financial confidence. Our ability to reach our financial goals and to maintain an adequate fund balance will again present an ongoing challenge.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$11,408,843 (net assets). Of this amount, \$3,210,377 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$690,113. This represents increases in ongoing revenues which exceeded increases in ongoing expenditures.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,835,597, an increase of \$297,561 in comparison with the prior year. Of this amount, \$3,010,149 (unassigned fund balance) is available for spending at the District's discretion.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Sinking Fund, Debt Retirement Fund, and Food Service Fund) was \$3,835,597 or 34% of the total expenditures of these operating funds.

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.

TAWAS AREA SCHOOLS
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012

Governmental Funds (Continued)

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 assets were \$11,408,843 at June 30, 2012. Of this amount, \$3,210,377 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the School District's governmental activities.

TAWAS AREA SCHOOLS
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 1
NET ASSETS

	Governmental Activities	
	June 30, 2012	June 30, 2011
Current Assets	\$ 4,441,702	\$ 4,568,681
Noncurrent Assets:		
Bond Issuance Costs - Net	13,726	18,491
Capital Assets - Net	9,291,695	9,472,490
Total Assets	13,747,123	14,059,662
Current Liabilities	615,473	1,042,722
Noncurrent Liabilities	1,722,807	2,298,210
Total Liabilities	2,338,280	3,340,932
<u>Net Assets</u>		
Invested in Capital Assets – Net of Related Debt	7,706,182	7,399,148
Restricted	492,284	453,445
Unrestricted	3,210,377	2,866,137
Total Net Assets	\$ 11,408,843	\$ 10,718,730

The \$3,210,377 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example); we would have \$3,210,377 left.

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2012	Year Ended June 30, 2011
Revenue:		
Program Revenue:		
Charges for Services	\$ 334,501	\$ 314,040
Operating Grants and Contributions	1,660,951	2,019,947
General Revenue:		
Current Property Taxes	5,171,727	5,199,113
State School Aid – Unrestricted	4,525,288	4,721,682
Investment Earnings	3,781	3,712
Miscellaneous	5,549	8,044
Total Revenue	11,701,797	12,266,538

TAWAS AREA SCHOOLS
Losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2012	Year Ended June 30, 2011
Functions/Program Expenses:		
Instruction	\$ 6,600,705	\$ 6,847,660
Support Services	3,482,584	3,494,199
Community Services	11,901	11,108
Athletics	253,126	250,595
Food Services	581,196	590,843
Interest on Long-Term Debt	82,172	97,540
Total Functions/Program Expenses	11,011,684	11,291,945
Change in Net Assets	690,113	974,593
Beginning Net Assets	10,718,730	9,744,137
Ending Net Assets	\$ 11,408,843	\$ 10,718,730

Governmental activities increased the District's net assets by \$690,113.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$11,011,684. However, the amount that our taxpayers ultimately financed for these activities through the School District was only \$5,171,727 because some of the cost was paid by those who benefited from the programs (\$334,501), by other governments and organizations who subsidized certain programs with grants and contributions (\$1,660,951), by unrestricted state school aid (\$4,525,288), and by miscellaneous sources (\$9,330).

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, 2012, the District amended the budgets of these governmental funds a couple of times, due to changes in funding sources.

General Fund

The general fund actual revenue was \$10,309,821. The amount is above the original budget estimates of \$9,868,120 and below the final amended budget of \$10,314,770. The variance between the actual revenues, the original budget and the final budget was mostly the result of changes in anticipated State funding, compared to the amounts originally budgeted.

The actual expenditures of the general fund were \$10,155,820, which is below the original budget estimate of \$10,413,339 and the final amended budget of \$10,172,972. The variance between the actual expenditures, the original budget and the final budget was the result of decreases in expenditures for Title I and special education compared to the amount originally budgeted.

The General Fund had total revenues of \$10,309,821 and total expenditures of \$10,155,820 with an ending fund balance of \$3,272,592.

TAWAS AREA SCHOOLS
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$11,404,236. The governmental funds had a net gain in fund balance of \$297,561. The ending fund balance for all governmental funds was \$3,835,597 which represents 34% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the District had \$18,966,060 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, \$9,674,365 in depreciation has been taken over the years. We currently have a net book value of \$9,291,695. Total additions for the year were \$228,418 and were made up of a new trophy case, alarm system, bus garage door, fencing, school bus and construction in progress for the high school parking lot. Total disposals for the year were \$73,592 for a bus and two vehicles. The District has a commitment of \$290,708 to finish the high school parking lot in fiscal year 2013.

Additional information on the District's capital assets can be found in Notes to Financial Statements, Note 3 of this report.

Long-Term Debt

At June 30, 2012, the District had \$1,620,000 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 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan continues to be unsound. However, the passing of the State's 2012/2013 budget months in advance of the constitutional deadline made it possible once again for Tawas Area Schools to plan for our financial future without having to rely on speculation and assumption as in years past. These known factors of the state budget were considered while preparing the 2012/2013 budgets. Student enrollment for budgeting purposes was estimated based on predictions and enrollment history. During the 2012/2013 school year Tawas Area Schools will implement the requirements to receive the categorical "Best Practices" revenue. All required information will be provided to the Michigan Department of Education proving our eligibility for the additional funding.

REQUESTS FOR INFORMATION

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

Don Vernon
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 ASSETS
June 30, 2012

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 3,415,683
Receivables:	
Accounts	12,744
Due From Other Governmental Units	990,140
Inventory: (Note 1)	
Supplies	12,342
Building Trades Lots	10,793
Noncurrent Assets:	
Bond Issuance Costs - Net (Note 1)	13,726
Capital Assets Not Being Depreciated (Note 3)	245,411
Capital Assets Net of Accumulated Depreciation (Note 3)	9,046,284
 Total Assets	 13,747,123
 <u>Liabilities</u>	
Accounts Payable	36,035
Due to Other Units	5,217
Interest Payable	9,368
Payroll Deductions and Withholdings	142,037
Salaries Payable	422,816
Long-Term Liabilities (Note 5)	
Due within one year	575,684
Due in more than one year	1,147,123
 Total Liabilities	 2,338,280
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	7,706,182
Restricted For:	
Debt Retirement	20,854
Capital Projects	471,430
Unrestricted	3,210,377
 Total Net Assets	 \$ 11,408,843

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 6,601,394	\$ 31,889	\$ 1,058,423	\$ 0	\$ (5,511,082)
Support Services	3,481,895	55,581	185,842	0	(3,240,472)
Community Services	11,901	3,401	0	0	(8,500)
Athletics	253,126	79,988	0	0	(173,138)
Food Services	581,196	163,642	416,686	0	(868)
Interest on Long-Term Debt	<u>82,172</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(82,172)</u>
 Total	 <u>\$ 11,011,684</u>	 <u>\$ 334,501</u>	 <u>\$ 1,660,951</u>	 <u>\$ 0</u>	 <u>(9,016,232)</u>
General Revenue:					
Property Taxes, Levied for General Purposes					4,360,758
Property Taxes, Levied for Debt Purposes					566,738
Property Taxes, Levied for Sinking Fund Purposes					244,231
State School Aid - Unrestricted					4,525,288
Investment Earnings					3,781
Miscellaneous					<u>5,549</u>
Total General Revenue					<u>9,706,345</u>
 Change in net assets					 690,113
 Net assets - beginning					 <u>10,718,730</u>
 Net assets - ending					 <u>\$ 11,408,843</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, 2012

<u>ASSETS</u>	<u>General Fund</u>	<u>Capital Projects Fund Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents (Note 2)	\$ 2,843,219	\$ 480,919	\$ 91,545	\$ 3,415,683
Receivables:				
Accounts	10,936	0	1,808	12,744
Due From Other Governmental Units	986,197	0	3,943	990,140
Inventory: (Note 1)				
Supplies	0	0	12,342	12,342
Building Trades Lots	<u>10,793</u>	<u>0</u>	<u>0</u>	<u>10,793</u>
Total Assets	<u>\$ 3,851,145</u>	<u>\$ 480,919</u>	<u>\$ 109,638</u>	<u>\$ 4,441,702</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 26,520	\$ 9,489	\$ 26	\$ 36,035
Due to Other Units	5,217	0	0	5,217
Payroll Deductions and Withholdings	136,982	0	5,055	142,037
Salaries Payable	<u>409,834</u>	<u>0</u>	<u>12,982</u>	<u>422,816</u>
Total Liabilities	<u>578,553</u>	<u>9,489</u>	<u>18,063</u>	<u>606,105</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	10,793	0	12,342	23,135
Restricted For:				
Debt Retirement	0	0	20,854	20,854
Capital Projects	0	471,430	0	471,430
Assigned To:				
Food Service	0	0	58,379	58,379
2012/2013 Budgeted Expenditures	251,650	0	0	251,650
Unassigned	<u>3,010,149</u>	<u>0</u>	<u>0</u>	<u>3,010,149</u>
Total Fund Equity	<u>3,272,592</u>	<u>471,430</u>	<u>91,575</u>	<u>3,835,597</u>
Total Liabilities and Fund Equity	<u>\$ 3,851,145</u>	<u>\$ 480,919</u>	<u>\$ 109,638</u>	<u>\$ 4,441,702</u>

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2012

Total governmental fund balances		\$	3,835,597
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:			
Capital Asset Cost		\$	18,966,060
Capital Asset Accumulated Depreciation			<u>(9,674,365)</u>
			9,291,695
Accrued interest on long-term liabilities			(9,368)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (net of deferred amounts on refunding)			(1,585,513)
Compensated Absences Payable			(67,778)
Incurred But Not Reported Benefit Claims			<u>(55,790)</u>
Total long-term liabilities			<u>(1,709,081)</u>
Total net assets - governmental activities		\$	<u>11,408,843</u>

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

TAWAS AREA SCHOOLS
Losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Capital Projects Fund Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local Sources	\$ 4,514,489	\$ 244,647	\$ 730,643	\$ 5,489,779
State Sources	5,205,676	0	35,695	5,241,371
Federal Sources	549,358	0	380,991	930,349
Interdistrict Sources	40,298	0	0	40,298
Total revenue	10,309,821	244,647	1,147,329	11,701,797
<u>Expenditures</u>				
Current:				
Instruction	6,325,192	0	0	6,325,192
Support Services	3,271,216	0	0	3,271,216
Community Services	11,257	0	0	11,257
Food Services	0	0	549,769	549,769
Athletics	239,438	0	0	239,438
Capital Outlay	308,717	125,937	0	434,654
Debt Service:				
Principal Retirement	0	0	500,000	500,000
Interest and Fees on Long-Term Debt	0	0	72,710	72,710
Total expenditures	10,155,820	125,937	1,122,479	11,404,236
Excess of revenue over (under) expenditures	154,001	118,710	24,850	297,561
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	34,000	0	0	34,000
Operating Transfers Out	0	0	(34,000)	(34,000)
Total other financing sources (uses)	34,000	0	(34,000)	0
Excess of revenue and other sources over (under) expenditures and other uses	188,001	118,710	(9,150)	297,561
Fund balances - beginning of year	3,084,591	352,720	100,725	3,538,036
Fund balances - end of year	\$ 3,272,592	\$ 471,430	\$ 91,575	\$ 3,835,597

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, 2012

Total net change in fund balances - governmental funds	\$	297,561
--	----	---------

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	\$ (409,213)	
Capital outlays reported in the governmental funds	<u>228,418</u>	(180,795)

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

Bonds Payable		500,000
---------------	--	---------

Governmental funds report the effect of issuance costs 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 Costs and Bond Premiums (Net)		(12,171)
---	--	----------

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 effect of the treatment of these activities are as follows:

Interest	2,709	
Compensated Absences	5,405	
Early Retirement Incentives	75,000	
Incurred But Not Reported Benefit Claims	<u>2,404</u>	
		<u>85,518</u>

Change in net assets of governmental activities	\$	<u><u>690,113</u></u>
---	----	-----------------------

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

TAWAS AREA SCHOOLS
losco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2012

	<u>ASSETS</u>	<u>Student Activity</u>
Cash and Cash Equivalents (Note 2)		\$ <u><u>113,365</u></u>
	<u>LIABILITIES</u>	
Due to Student Groups		\$ <u><u>113,365</u></u>

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Tawas Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Tawas Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

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

Governmental Funds

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

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

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

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 assets 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 assets are reported as restricted when constraints placed on net asset 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 assets restricted for other purposes result from special revenue and capital project funds and the restrictions on their net asset 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, 2012

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 Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

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, 2012, 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. 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.

G. Inventory – Supplies

Inventory on government-wide financial statements is stated at cost and expensed when used.

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

H. Inventory - Building Trades Lots

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

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. 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 assets but are not reported in the fund financial statements.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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

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

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

K. 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 assets.

L. 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.

M. Compensated Absences

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

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

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

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, 2012.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net asset restrictions have been established for debt service and capital projects.

O. Fund Balances

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

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

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

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

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

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.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. 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, 2012, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2011.

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, 2011 - August, 2012. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

R. 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 deferred revenue.

S. 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.

T. 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, 2012.

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Economic Dependency

The School District received approximately 45% 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.

V. 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.

W. Budgetary Policies and Data

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

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

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

X. Reclassifications

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents	\$ 3,415,683	\$ 113,365	\$ 3,529,048

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking Accounts)	\$ 210,533
Investments in Pooled Funds	3,317,815
Petty Cash and Cash on Hand	700
Total	\$ 3,529,048

As of June 30, 2012, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ 3,317,815	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, 2012, the School District's investment in the Cadre Consulting managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2012, \$326,016 of the School District's bank balance of \$576,016 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments

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

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

Foreign Currency Risk

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

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>July 01, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 150,525	\$ 0	\$ 0	\$ 150,525
Construction in Progress	<u>0</u>	<u>94,886</u>	<u>0</u>	<u>94,886</u>
Subtotal	<u>150,525</u>	<u>94,886</u>	<u>0</u>	<u>245,411</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	13,808,150	27,468	0	13,835,618
Site Improvements	2,449,354	15,713	0	2,465,067
Furniture, Fixtures and Equipment	901,158	0	0	901,158
Vehicles and Buses	<u>1,502,047</u>	<u>90,351</u>	<u>(73,592)</u>	<u>1,518,806</u>
Subtotal	<u>18,660,709</u>	<u>133,532</u>	<u>(73,592)</u>	<u>18,720,649</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(5,589,543)	(263,607)	0	(5,853,150)
Site Improvements	(1,885,186)	(38,355)	0	(1,923,541)
Furniture, Fixtures and Equipment	(701,282)	(33,528)	0	(734,810)
Vehicles and Buses	<u>(1,162,733)</u>	<u>(73,723)</u>	<u>73,592</u>	<u>(1,162,864)</u>
Subtotal	<u>(9,338,744)</u>	<u>(409,213)</u>	<u>73,592</u>	<u>(9,674,365)</u>
Capital Assets Being Depreciated	<u>9,321,965</u>	<u>(275,681)</u>	<u>0</u>	<u>9,046,284</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,472,490</u>	<u>\$ (180,795)</u>	<u>\$ 0</u>	<u>\$ 9,291,695</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities

Instruction	\$ 237,360
Support Services	141,428
Community Services	428
Athletics	9,101
Food Services	<u>20,896</u>
	<u>\$ 409,213</u>

NOTE 4 - 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, 2012.

NOTE 5 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
2003 Refunding Bonds:				
The bonds dated March 27, 2003 which bear interest from 3.25% to 3.6% are due serially each May 1 through 2015	2003	\$ <u>1,620,000</u>	\$ <u>115,160</u>	\$ <u>1,735,160</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2012 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 520,000	\$ 56,210	\$ 576,210
2014	540,000	38,790	578,790
2015	<u>560,000</u>	<u>20,160</u>	<u>580,160</u>
Total	<u>\$ 1,620,000</u>	<u>\$ 115,160</u>	<u>\$ 1,735,160</u>

TAWAS AREA SCHOOLS
losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 5 - 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 \$67,778 at June 30, 2012, of which \$7,300 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, 2012 are as follows:

	6/30/2012
Claims Liability, Beginning of Year	\$ 58,194
Claims and Damages Incurred	278,652
Claims Payments	(281,056)
Claims Liability, End of Year	\$ 55,790

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, 2012:

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012	Amount Due in One Year
<u>Governmental Activities</u>					
Bonds	\$ 2,120,000	\$ 0	\$ (500,000)	\$ 1,620,000	\$ 520,000
Deferred Amounts for Issuance					
Premium	(28,167)	0	7,406	(20,761)	(7,406)
Compensated Absences	73,183	0	(5,405)*	67,778	7,300
Early Retirement Incentives	75,000	0	(75,000)*	0	0
Incurred but not Reported					
Benefit Claims	58,194	278,652	(281,056)	55,790	55,790
Total Long-Term Liabilities	\$ 2,298,210	\$ 278,652	\$ (854,055)	\$ 1,722,807	\$ 575,684

*Represents net of additions and retirements for the year.

The interest expenses on long-term obligations for the year were \$82,172.

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

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 6 - OPERATING TRANSFERS

During the year ended June 30, 2012, the following transfers were made:

Description	Operating Transfers In	Operating Transfers Out
General Fund	\$ 34,000	\$ 0
Non-major Governmental Funds	0	34,000
	\$ 34,000	\$ 34,000

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

NOTE 7 - RETIREMENT PLANS

Defined Benefit Plan

The Tawas Area Schools contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. 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

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

During the plan fiscal year 2011, employer contributions were 20.66% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2011, the contribution rate increased to 24.46% of covered compensation, except for PPP members. Contributions for PPP members for plan fiscal year 2011 was at a reduced rate of 19.16%. After September 30, 2011, the contribution rate increased to 23.23%. The contribution requirements of plan members and Tawas Area Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2012, 2011 and 2010 were \$1,347,727, \$1,140,197 and \$1,078,806, respectively, equal to the required contributions for each year.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

Deferred Compensation Plans

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

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through 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 \$43,739 for the year ended June 30, 2012.

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 \$147,866 for the year ended June 30, 2012. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

Defined Contribution Plan

Plan Description

The School District's defined contribution pension plan 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. 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

The School District employees are required to contribute 2% of their earnings for the plan year, unless they elect out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees can elect to contribute more than 2% in full percent increments. For employees that elect to participate, the employer will match 50% of the contribution up to 1%. Employer contributions are considered a section 401(a) contribution.

TAWAS AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2012, the School District contributed \$1,990 on behalf of eligible employees. Employee contributions amounted to \$3,979 for eligible employees.

NOTE 8 - 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 \$634 as of June 30, 2012.

NOTE 9 - SINKING FUND

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

NOTE 10 - RISK MANAGEMENT

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

TAWAS AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 11 - GOVERNMENTAL REGULATION

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

NOTE 12 - COMMITMENTS

The School District has contractual commitments in the amount of \$290,708 outstanding at June 30, 2012.

Construction contracts

As of June 30, 2012, the School District had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at June 30, 2012</u>	<u>Contract Payable at June 30, 2012</u>
Reconstruct High School Parking Lot	\$ <u>385,594</u>	\$ <u>290,708</u>	\$ <u>9,489</u>

NOTE 13 - 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, 2012, 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.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2012

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 4,452,902	\$ 4,520,135	\$ 4,514,489	\$ (5,646)
State Sources	4,690,683	5,205,675	5,205,676	1
Federal Sources	682,035	548,661	549,358	697
Interdistrict Sources	42,500	40,299	40,298	(1)
Total revenue	9,868,120	10,314,770	10,309,821	(4,949)
<u>Expenditures</u>				
Current:				
Instruction	6,662,848	6,327,401	6,325,192	2,209
Support Services	3,239,216	3,284,921	3,271,216	13,705
Community Services	12,982	11,257	11,257	0
Athletics	237,664	240,517	239,438	1,079
Capital Outlay	260,629	308,876	308,717	159
Total expenditures	10,413,339	10,172,972	10,155,820	17,152
Excess of revenue over (under) expenditures	(545,219)	141,798	154,001	12,203
<u>Other Financing Sources</u>				
Operating Transfers In	35,000	34,000	34,000	0
Excess of revenue and other sources over (under) expenditures	(510,219)	175,798	188,001	12,203
Fund balances - beginning of year	3,084,591	3,084,591	3,084,591	0
Fund balances - end of year	\$ 2,574,372	\$ 3,260,389	\$ 3,272,592	\$ 12,203

OTHER INFORMATION

TAWAS AREA SCHOOLS
Iosco County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2012

	<u>Special Revenue Fund</u>		<u>Total Other Governmental Funds</u>
	<u>Lunch Fund</u>	<u>Debt Retirement Fund</u>	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 70,691	\$ 20,854	\$ 91,545
Receivables:			
Accounts	1,808	0	1,808
Due From Other Governmental Units	3,943	0	3,943
Inventory:			
Supplies	<u>12,342</u>	<u>0</u>	<u>12,342</u>
Total Assets	<u>\$ 88,784</u>	<u>\$ 20,854</u>	<u>\$ 109,638</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 26	\$ 0	\$ 26
Payroll Deductions and Withholdings	5,055	0	5,055
Salaries Payable	<u>12,982</u>	<u>0</u>	<u>12,982</u>
Total Liabilities	<u>18,063</u>	<u>0</u>	<u>18,063</u>
<u>Fund Equity</u>			
Fund Balances:			
Nonspendable:			
Inventory	12,342	0	12,342
Restricted For:			
Debt Retirement	0	20,854	20,854
Assigned To:			
Food Service	<u>58,379</u>	<u>0</u>	<u>58,379</u>
Total Fund Equity	<u>70,721</u>	<u>20,854</u>	<u>91,575</u>
Total Liabilities and Fund Equity	<u>\$ 88,784</u>	<u>\$ 20,854</u>	<u>\$ 109,638</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue Fund	Debt Retirement Fund	Total Other Governmental Funds
	Lunch Fund		
<u>Revenue</u>			
Local Sources	\$ 163,683	\$ 566,960	\$ 730,643
State Sources	35,695	0	35,695
Federal Sources	380,991	0	380,991
Total revenue	580,369	566,960	1,147,329
<u>Expenditures</u>			
Current:			
Food Services	549,769	0	549,769
Debt Service:			
Principal Retirement	0	500,000	500,000
Interest and Fees on Long-Term Debt	0	72,710	72,710
Total expenditures	549,769	572,710	1,122,479
Excess of revenue over (under) expenditures	30,600	(5,750)	24,850
<u>Other Financing Uses</u>			
Operating Transfers Out	(34,000)	0	(34,000)
Excess of revenue over (under) expenditures and other uses	(3,400)	(5,750)	(9,150)
Fund balances - beginning of year	74,121	26,604	100,725
Fund balances - end of year	\$ 70,721	\$ 20,854	\$ 91,575

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	<u>2012</u> <u>Amended</u> <u>Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
<u>Local Sources</u>			
Current Property Taxes	\$ 4,365,355	\$ 4,360,758	\$ 4,373,637
Tuition	3,401	3,401	3,562
Transportation Fees	30,403	29,802	22,904
Gate Receipts	50,827	50,827	49,736
Interest on Investments	3,204	3,102	3,091
Rents	3,741	3,741	3,740
Medicaid Fee for Service	31,889	31,889	31,668
Miscellaneous Local Sources	<u>31,315</u>	<u>30,969</u>	<u>33,859</u>
	<u>4,520,135</u>	<u>4,514,489</u>	<u>4,522,197</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,395,663	4,395,665	4,608,475
Special Education	213,176	213,176	239,312
At Risk	311,894	311,894	244,626
Preschool Program/Early Childhood Education	41,990	41,990	44,200
Best Practices	129,623	129,623	0
MPSERS Cost Offset	<u>113,329</u>	<u>113,328</u>	<u>0</u>
	<u>5,205,675</u>	<u>5,205,676</u>	<u>5,136,613</u>
<u>Federal Sources</u>			
ARRA Budget Stabilization	0	0	160,352
ECIA Title I	363,090	363,090	184,161
ARRA Title I	0	0	170,387
ECIA Title II- Improving Teacher Quality	78,927	78,927	92,855
Title II Part D - Education Technology	0	0	564
ECIA Title VI	21,775	21,774	34,600
Medicaid Outreach	0	698	735
Schools and Roads Grant Funds	8,517	8,517	8,744
ARRA Special Education	0	28,126	190,000
Education Jobs	23,035	23,035	304,934
Special Education	<u>53,317</u>	<u>25,191</u>	<u>0</u>
	<u>548,661</u>	<u>549,358</u>	<u>1,147,332</u>
<u>Interdistrict Sources</u>			
Speech and Language	0	0	46,096
Vocational Education	14,519	14,519	16,799
Services Provided to Other Public Schools	<u>25,780</u>	<u>25,779</u>	<u>1,950</u>
	<u>40,299</u>	<u>40,298</u>	<u>64,845</u>
<u>Other Financing Sources</u>			
Operating Transfers In	<u>34,000</u>	<u>34,000</u>	<u>38,500</u>
Total Revenue and Other Financing Sources	<u>\$ 10,348,770</u>	<u>\$ 10,343,821</u>	<u>\$ 10,909,487</u>

TAWAS AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	<u>2012 Amended Budget</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,134,449	\$ 1,134,447	\$ 1,170,349
Employee Benefits	563,109	561,098	567,526
Purchased Services	26,900	26,727	11,036
Supplies, Materials and Other	<u>38,770</u>	<u>38,465</u>	<u>31,005</u>
	<u>1,763,228</u>	<u>1,760,737</u>	<u>1,779,916</u>
Junior High School			
Salaries	648,834	648,832	627,768
Employee Benefits	344,680	344,688	330,293
Purchased Services	22,909	22,627	5,482
Supplies, Materials and Other	<u>24,215</u>	<u>23,919</u>	<u>8,395</u>
	<u>1,040,638</u>	<u>1,040,066</u>	<u>971,938</u>
High School			
Salaries	1,277,057	1,277,055	1,412,127
Employee Benefits	603,046	603,042	673,536
Purchased Services	80,462	81,894	45,856
Supplies, Materials and Other	<u>40,776</u>	<u>40,255</u>	<u>61,324</u>
	<u>2,001,341</u>	<u>2,002,246</u>	<u>2,192,843</u>
Preschool			
Salaries	17,572	17,569	20,134
Employee Benefits	11,471	11,468	11,939
Purchased Services	1,402	1,401	527
Supplies, Materials and Other	<u>6,237</u>	<u>6,236</u>	<u>3,714</u>
	<u>36,682</u>	<u>36,674</u>	<u>36,314</u>
Total Basic Programs	<u>4,841,889</u>	<u>4,839,723</u>	<u>4,981,011</u>
Added Needs:			
Special Education			
Salaries	478,499	478,490	511,956
Employee Benefits	215,632	215,610	247,790
Purchased Services	60,470	60,478	55,741
Supplies, Materials and Other	<u>1,121</u>	<u>1,117</u>	<u>10,746</u>
	<u>755,722</u>	<u>755,695</u>	<u>826,233</u>
Compensatory Education			
Salaries	284,798	284,796	277,330
Employee Benefits	112,946	112,950	135,653
Purchased Services	6,963	6,963	515
Supplies, Materials and Other	<u>21,877</u>	<u>21,876</u>	<u>8,688</u>
	<u>426,584</u>	<u>426,585</u>	<u>422,186</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	<u>2012 Amended Budget</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 74,515	\$ 74,507	\$ 108,065
Employee Benefits	36,874	36,870	53,725
Purchased Services	190,905	190,900	184,493
Supplies, Materials and Other	<u>912</u>	<u>912</u>	<u>640</u>
	<u>303,206</u>	<u>303,189</u>	<u>346,923</u>
 Total Added Needs	 <u>1,485,512</u>	 <u>1,485,469</u>	 <u>1,595,342</u>
 Total Instruction	 <u>6,327,401</u>	 <u>6,325,192</u>	 <u>6,576,353</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	74,589	74,751	96,614
Employee Benefits	40,622	40,670	42,201
Purchased Services	209	209	0
Supplies, Materials and Other	<u>264</u>	<u>263</u>	<u>129</u>
	<u>115,684</u>	<u>115,893</u>	<u>138,944</u>
 Health Services			
Purchased Services	<u>6,672</u>	<u>6,127</u>	<u>7,094</u>
 Psychological Services			
Purchased Services	<u>6,320</u>	<u>6,320</u>	<u>3,555</u>
 Speech			
Salaries	57,920	57,920	96,631
Employee Benefits	28,314	28,310	57,893
Purchased Services	245	245	358
Supplies, Materials and Other	<u>45</u>	<u>45</u>	<u>765</u>
	<u>86,524</u>	<u>86,520</u>	<u>155,647</u>
 Social Work			
Salaries	116,578	116,574	115,902
Employee Benefits	57,359	57,330	59,588
Purchased Services	0	0	591
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>290</u>
	<u>173,937</u>	<u>173,904</u>	<u>176,371</u>
 Total Pupil Services	 <u>389,137</u>	 <u>388,764</u>	 <u>481,611</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	<u>2012 Amended Budget</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff:			
Instructional Improvement			
Purchased Services	\$ <u>1,962</u>	\$ <u>1,962</u>	\$ <u>2,592</u>
Library Services			
Salaries	29,244	29,243	26,224
Employee Benefits	13,933	13,927	12,714
Purchased Services	1,427	1,426	0
Supplies, Materials and Other	<u>9,338</u>	<u>9,399</u>	<u>9,329</u>
	<u>53,942</u>	<u>53,995</u>	<u>48,267</u>
Director of Instruction			
Purchased Services	0	0	132
Supplies, Materials and Other	<u>4,600</u>	<u>4,275</u>	<u>5,343</u>
	<u>4,600</u>	<u>4,275</u>	<u>5,475</u>
Total Instructional Staff	<u>60,504</u>	<u>60,232</u>	<u>56,334</u>
General Administration:			
Board of Education			
Salaries	6,900	6,840	6,960
Purchased Services	<u>64,770</u>	<u>64,716</u>	<u>63,991</u>
	<u>71,670</u>	<u>71,556</u>	<u>70,951</u>
Executive Administration			
Salaries	150,713	150,713	146,149
Employee Benefits	69,671	69,671	64,235
Purchased Services	25,980	25,930	23,068
Supplies, Materials and Other	<u>16,978</u>	<u>17,131</u>	<u>17,307</u>
	<u>263,342</u>	<u>263,445</u>	<u>250,759</u>
Total General Administration	<u>335,012</u>	<u>335,001</u>	<u>321,710</u>
School Administration:			
Office of the Principal			
Salaries	369,780	369,704	335,280
Employee Benefits	216,472	216,435	189,054
Purchased Services	19,606	19,604	27,446
Supplies, Materials and Other	<u>29,546</u>	<u>29,633</u>	<u>17,929</u>
	<u>635,404</u>	<u>635,376</u>	<u>569,709</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	<u>2012</u> <u>Amended</u> <u>Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
<u>Support Services (Continued)</u>			
Business:			
Fiscal Services			
Salaries	\$ 113,024	\$ 113,024	\$ 110,001
Employee Benefits	65,990	67,077	56,721
Purchased Services	29,856	29,855	28,143
Supplies, Materials and Other	<u>25,553</u>	<u>25,552</u>	<u>31,908</u>
	<u>234,423</u>	<u>235,508</u>	<u>226,773</u>
Operations and Maintenance:			
Salaries	268,123	267,993	289,841
Employee Benefits	170,443	171,068	166,985
Purchased Services	415,815	402,411	398,459
Supplies, Materials and Other	<u>23,385</u>	<u>22,844</u>	<u>19,265</u>
	<u>877,766</u>	<u>864,316</u>	<u>874,550</u>
Transportation:			
Salaries	261,488	261,412	279,288
Employee Benefits	128,020	128,128	125,481
Purchased Services	47,150	45,351	44,682
Supplies, Materials and Other	<u>146,534</u>	<u>147,713</u>	<u>159,426</u>
	<u>583,192</u>	<u>582,604</u>	<u>608,877</u>
Central Services:			
Salaries	30,158	30,157	29,716
Employee Benefits	<u>16,765</u>	<u>16,762</u>	<u>15,850</u>
	<u>46,923</u>	<u>46,919</u>	<u>45,566</u>
Technology:			
Salaries	71,788	71,788	79,805
Employee Benefits	39,403	39,399	39,034
Purchased Services	11,369	11,309	14
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>288</u>
	<u>122,560</u>	<u>122,496</u>	<u>119,141</u>
Total Support Services	<u>3,284,921</u>	<u>3,271,216</u>	<u>3,304,271</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	6,175	6,175	5,319
Employee Benefits	4,467	4,467	3,764
Purchased Services	577	577	577
Supplies, Materials and Other	<u>38</u>	<u>38</u>	<u>824</u>
Total Community Services	<u>11,257</u>	<u>11,257</u>	<u>10,484</u>

TAWAS AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	2012 Amended Budget	2012 Actual	2011 Actual
<u>Athletics</u>			
Salaries	\$ 39,893	\$ 38,592	\$ 123,969
Employee Benefits	21,656	21,625	42,629
Equipment and Supplies	881	0	0
Purchased Services	162,908	163,160	58,454
Other Expenditures	<u>15,179</u>	<u>16,061</u>	<u>11,471</u>
Total Athletics	<u>240,517</u>	<u>239,438</u>	<u>236,523</u>
<u>Capital Outlay</u>			
Instruction	64,832	64,830	115,588
Support Services	231,286	231,129	109,710
Athletics	<u>12,758</u>	<u>12,758</u>	<u>13,811</u>
Total Capital Outlay	<u>308,876</u>	<u>308,717</u>	<u>239,109</u>
Total Expenditures	<u>\$ 10,172,972</u>	<u>\$ 10,155,820</u>	<u>\$ 10,366,740</u>



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

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

TAWAS AREA SCHOOLS
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2012

I_N_D_E_X

	<u>PAGE</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1 - 2
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	3 - 4
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	6 - 7
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	8 - 11



Stephenson, Gracik & Co., P.C.

Certified Public Accountants & Consultants

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

August 10, 2012

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 the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2012, which collectively comprise Tawas Area Schools' basic financial statements and have issued our report thereon dated August 10, 2012. 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.

Internal Control Over Financial Reporting

Management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified two deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (12-01 and 12-02) that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

Board of Education
Tawas Area Schools
August 10, 2012
Page Two

We noted certain other matters that we reported to management of Tawas Area Schools in a separate letter dated August 10, 2012.

Tawas Area Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Tawas Area Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.



August 10, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Tawas Area Schools
Iosco County, Michigan

Compliance

We have audited Tawas Area Schools' compliance with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Tawas Area Schools' major federal programs for the year ended June 30, 2012. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Tawas Area Schools' management. Our responsibility is to express an opinion on Tawas Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tawas Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Tawas Area Schools' compliance with those requirements.

In our opinion, Tawas Area Schools complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Tawas Area Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated August 10, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise Tawas Area Schools' financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

Tawas Area Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tawas Area Schools' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gratch & Co., P.C.

TAWAS AREA SCHOOLS
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012

Findings - Financial Statements Audit

11-01 Financial Statement Presentation

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

Current Status: This situation still exists. See the current year finding 12-01 for details.

Findings and Questioned Costs - Major Federal Award Programs Audit

11-02 Title I Cluster – Allowable Costs/Cost Principles

Tawas Area Schools charged two items to the Title I Cluster that were not allowable for Title I reimbursement.

Current Status: This situation has been corrected. The Title I Director now reviews all expenditures being requested for federal reimbursement to ensure that they are allowable and included in the approved consolidated application.

11-03 Title I Cluster – Parental Involvement

Tawas Area Schools did not have enough parental involvement expenditures to cover the 95% payout of the 1% allocation requirement for Title I allocations over \$500,000.

Current Status: This situation has been corrected. The Title I Director will monitor parental involvement expenditures to ensure that they cover the 1% allocation requirement if they have any Title I allocations that exceed \$500,000 in the future.

TAWAS AREA SCHOOLS
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Tawas Area Schools.
- (2) Two significant deficiencies in internal control relating to the audit of the financial statements is reported in the 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 or significant deficiencies relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unqualified 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: Child Nutrition Cluster, CFDA #10.553 and #10.555 and the Title I Cluster, CFDA #84.010.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Tawas Area Schools does not qualify as a low-risk auditee.

Findings – Financial Statements Audit

12-01 Financial Statement Preparation

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.

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

Questioned Costs: None.

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.

TAWAS AREA SCHOOLS
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Effect: As a result, the District is considered to have a significant deficiency, 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.

Views of responsible officials and planned corrective action: 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 and by using the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the “Blue Book”), to assist with the disclosures required for the financial statements.

12-02 Lack of Sufficient Support for Activity Fund Transactions

Criteria: Proper internal control mandates that proper oversight be conducted regarding the completeness of all District deposits.

Condition: Currently, other than fundraisers, there are no recap or reconciliations prepared for activity fund events detailing out the money that is being collected and deposited to support the completeness of the deposit.

Questioned Costs: None.

Context: Tawas Area Schools does currently have policies and procedures in place to ensure that the transactions relating to activity funds are reasonable and complete; however, they are not being consistently followed.

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

Views of responsible officials and planned corrective action: The Business Manager will be working with the individuals in charge of each building's various activity funds immediately, to ensure that each building follows the activity fund policies and procedures consistently.

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, 2012.

TAWAS AREA SCHOOLS

Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

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, 2011	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2012
<u>U.S. Department of Agriculture</u>							
Passed through the Michigan Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
Food Distribution							
55030 Entitlement Commodities	10.555	\$ 31,628	\$ 0	\$ 0	\$ 31,628	\$ 31,628	\$ 0
55030 Bonus Commodities		8,105	0	0	8,105	8,105	0
<i>Non-Cash Assistance Subtotal</i>		<u>39,733</u>	<u>0</u>	<u>0</u>	<u>39,733</u>	<u>39,733</u>	<u>0</u>
Cash Assistance:							
School Breakfast Program							
111970 2010-2011	10.553	78,951	71,564	0	7,387	7,387	0
121970 2011-2012		73,039	0	0	73,039	73,039	0
		<u>151,990</u>	<u>71,564</u>	<u>0</u>	<u>80,426</u>	<u>80,426</u>	<u>0</u>
National School Lunch Program							
Section 11 - Free and Reduced							
111960 2010-2011	10.555	213,538	185,049	0	28,489	28,489	0
121960 2011-2012		232,343	0	0	232,343	232,343	0
		<u>445,881</u>	<u>185,049</u>	<u>0</u>	<u>260,832</u>	<u>260,832</u>	<u>0</u>
<i>Cash Assistance Subtotal</i>		<u>597,871</u>	<u>256,613</u>	<u>0</u>	<u>341,258</u>	<u>341,258</u>	<u>0</u>
Total Child Nutrition Cluster		<u>637,604</u>	<u>256,613</u>	<u>0</u>	<u>380,991</u>	<u>380,991</u>	<u>0</u>
Passed through Iosco County:							
Schools and Roads Grants Funds							
	10.665	8,517	0	0	8,517	8,517	0
Total U.S. Department of Agriculture		<u>646,121</u>	<u>256,613</u>	<u>0</u>	<u>389,508</u>	<u>389,508</u>	<u>0</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor or Pass Through Grantor <u>Program Title/Grant Number</u>	Federal <u>CFDA Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2011</u>	Current Year <u>Expenditures</u>	Current Year Receipts <u>(Cash Basis)</u>	Accrued (Deferred) Revenue <u>June 30, 2012</u>
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education:							
Title I Cluster:							
Title I - Grants to Local Educational Agencies							
111530 1011 2010-2011	84.010	\$ 380,127	\$ 178,169	\$ 29,988	\$ 201,958	\$ 231,946	\$ 0
121530 1112 2011-2012		404,655	0	0	161,132	138,319	22,813
		<u>784,782</u>	<u>178,169</u>	<u>29,988</u>	<u>363,090</u>	<u>370,265</u>	<u>22,813</u>
 Total Title I Cluster		 <u>784,782</u>	 <u>178,169</u>	 <u>29,988</u>	 <u>363,090</u>	 <u>370,265</u>	 <u>22,813</u>
 Passed through Iosco Regional Educational Service Agency as Fiscal Agent:							
Special Education Flow Through 120450 1112	84.027A	<u>25,191</u>	<u>0</u>	<u>0</u>	<u>25,191</u>	<u>25,191</u>	<u>0</u>
 Passed through Michigan Department of Education:							
Title VI Part B, Subpart 2:							
Rural and Low-Income Grant							
120660 2011-2012	84.358B	<u>28,247</u>	<u>0</u>	<u>0</u>	<u>21,774</u>	<u>21,774</u>	<u>0</u>
 Passed through the Michigan Department of Education:							
Title II Part A:							
Improving Teacher Quality							
110520 1011 2010-2011	84.367	92,855	92,855	2,336	0	2,336	0
120520 1112 2011-2012		79,254	0	0	78,927	70,098	8,829
		<u>172,109</u>	<u>92,855</u>	<u>2,336</u>	<u>78,927</u>	<u>72,434</u>	<u>8,829</u>
 Passed through Iosco Regional Educational Service Agency as Fiscal Agent:							
ARRA Special Education Flow Thru							
100455 0910 2009-2010	84.391	<u>243,317</u>	<u>190,000</u>	<u>69,456</u>	<u>28,126</u>	<u>97,582</u>	<u>0</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS
Losco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

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, 2011	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2012
<u>U.S. Department of Education (Continued)</u>							
Passed through Michigan Department of Education:							
ARRA Education Stabilization Fund 112525 1011	84.394	\$ 160,352	\$ 160,352	\$ 23,657	\$ 0	\$ 23,657	\$ 0
Passed through Michigan Department of Education Education Jobs fund 112545 1011	84.410A	327,969	304,934	35,086	23,035	58,121	0
Total U.S. Department of Education		<u>1,741,967</u>	<u>926,310</u>	<u>160,523</u>	<u>540,143</u>	<u>669,024</u>	<u>31,642</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Losco Regional Educational Service Agency:							
Medical Assistance Program Title XIX:							
Medicaid Outreach Claims 2010-2011	93.778	735	735	735	0	735	0
Medicaid Outreach Claims 2011-2012		0	0	0	698	0	698
		<u>735</u>	<u>735</u>	<u>735</u>	<u>698</u>	<u>735</u>	<u>698</u>
Total Federal Financial Awards		<u>\$ 2,388,823</u>	<u>\$ 1,183,658</u>	<u>\$ 161,258</u>	<u>\$ 930,349</u>	<u>\$ 1,059,267</u>	<u>\$ 32,340</u>

The accompanying notes are an integral part of this schedule.

TAWAS AREA SCHOOLS
Losco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to financial statements:

General Fund	\$ 549,358
Special Revenue Fund:	
Lunch Fund	<u>380,991</u>
	<u>\$ 930,349</u>



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

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

August 10, 2012

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, 2012 and have issued our report dated August 10, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on August 10, 2012. 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 Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 13, 2012, 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 the audit, we will consider Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated June 13, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the District during the year where 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 Incurred but not Reported Insurance Benefit Liability is based on an average daily amount of insurance claims. We evaluated the key factors and assumptions used to develop the Incurred but not Reported Insurance Benefit Liability in determining that it is reasonable in relation to the financial statements as a whole.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on August 10, 2012. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 as of the date of the audit report.

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, 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, 2012, 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 auditing 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 certain deficiencies in internal control that we consider to be 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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

STUDENT ACTIVITY FUNDS

Although the current policies in place at the District for Activity Accounts are sufficient, they are only effective when consistently applied. During the current audit we found that those policies are only being applied to fundraising activities and not other events. Without appropriate documentation and follow through, completeness of deposits and appropriateness of disbursements cannot be assured. We recommend that management implement procedures to ensure that their current recap sheet in place is utilized and completed by the individual in charge of each event and submitted to the individual in charge of that building's Activity Accounts for all fundraisers and events. Then, on a periodic basis (at least once a month), the independent party at each building would select a few events that occurred that period, and would analyze the activity and the total amount that was deposited, on behalf of the event, for reasonableness and completeness.

**APPENDIX II
MANAGEMENT COMMENTS**

STUDENT ACTIVITY FUNDS (CONTINUED)

For example, for a fieldtrip, the recap sheet should show the calculation of the number of students going on the fieldtrip (with a roster of the students who attended attached) multiplied by the total charge per student (with a copy of the letter or notice showing the applicable cost per student attached) which should then agree to the total amount deposited, detailing out the dates and amounts of those applicable deposits. Another example would be for a fundraiser where a number of items were purchased to sell for a set price. The recap should have the invoice attached showing the number of items purchased to sell for a set price and should then show the calculation of that number of items multiplied by the fundraising price equaling the total amount deposited. Again, those deposits should be detailed by date and amount. All deposits should then be tied into the bank statement.

We have also one other item we feel could improve your internal controls or operating efficiencies. This item is not considered a significant deficiency or a material weakness but is presented for your consideration.

ATHLETIC RECEIPTS

During our testing of athletic receipts it was noted that the supporting documentation for the athletic events was always available but was not consistently being signed by the individual collecting the gate receipts. By the individual collecting the funds not signing off on the total amount collected at each event, the District is at risk of having misappropriated receipts with no recourse showing at what point the funds became missing. We recommend that all supporting documentation be completely filled out and signed after each event.

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		X		
Title I Allowable Costs	X			
Title I Parental Involvement	X			