

TAHQUAMENON AREA SCHOOLS
Newberry, Michigan

FINANCIAL STATEMENTS

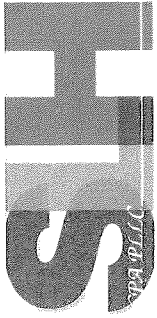
June 30, 2014

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October 27, 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tahquamenon Area Schools
Newberry, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tahquamenon Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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



Emphasis of Matter:

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, the School District adopted the new accounting guidance contained in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and page 35 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 the 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of Tahquamenon Area Schools's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, 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* in considering Tahquamenon Area School's internal control over financial reporting and compliance.


Certified Public Accountants

The Tahquamenon Area School District is a K-12 school district, encompassing seven townships in all of Luce County and parts of Chippewa, Mackinac and Schoolcraft Counties. Tahquamenon Area Schools is 1300 square miles in size; larger than the state of Rhode Island and the largest school district east of the Mississippi. With less than one student per square mile, the challenges of operating a school district our size are numerous.

This is intended to be the Tahquamenon Area School District's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplemental information. Generally Accepted Accounting Principles (GAAP) requires the reporting of *two types* of financial statements: District-wide Financial Statements and Fund Financial Statements.

- The *District-wide Financial Statements* consist of two statements: Statement of Net Position and Statement of Activities. These provide both short-term and long-term information about the District's overall financial status.
- The *Fund Financial Statements* focus on the individual parts of the District. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the District's operations in more detail than the District-wide Statements by providing information about the District's most significant funds – the General Fund and the Construction Fund, with all other funds presented in one column as nonmajor funds.
- The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and for other specified purposes.

The financial statements also include notes that further explain dollar amounts and provide more detailed data. The statements are followed by sections of required and other supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Net Position, the difference between the District's assets and liabilities, are one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional nonfinancial factors such as the quality of education provided, the safety of the schools, community involvement, changes in the property tax base and the condition of school buildings and other facilities.

Fund Financial Statements:

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital asset is reported as a fund asset. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded as a fund liability.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. In the State of Michigan the following fund types and related activities are described as follows:

Governmental Funds – All of the District's services are reported in the governmental funds, which include the General Fund, Food Service Fund, Library Fund and capital projects and debt service funds. They focus on how money flows into and out of those funds and the remaining balances at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash. The Governmental Fund Statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

Fiduciary Funds – The District is the fiduciary for assets that belong to or are held for the benefit of others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide Financial Statements because it cannot use these assets to finance its operations.

TAHQAMENON AREA SCHOOL DISTRICT**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2014****Financial Analysis of District as a Whole****Summary of Net Position:**

The following summarizes the net position at fiscal year ended June 30, 2014 and 2013.

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 1,934,309	\$ 2,222,585
Capital assets	10,148,637	10,067,409
Less: Accumulated depreciation	<u>(4,830,471)</u>	<u>(4,494,605)</u>
Capital assets, net book value	<u>5,318,166</u>	<u>5,572,804</u>
Other Assets:		
Bond issuance costs and discount	15,873	51,161
Land contract receivable	<u>7,485</u>	<u>8,087</u>
	<u>23,358</u>	<u>59,248</u>
Total Assets	<u>\$ 7,275,833</u>	<u>\$ 7,854,637</u>
Liabilities		
Current liabilities	\$ 1,823,318	\$ 1,778,619
Long-term liabilities	<u>4,083,265</u>	<u>4,507,296</u>
Total Liabilities	<u>5,906,583</u>	<u>6,285,915</u>
Net Position		
Invested in capital assets, net of related debt	1,903,166	1,652,804
Restricted for debt service	157,242	152,434
Restricted for capital projects	499,572	695,603
Unrestricted (deficit)	<u>(1,190,730)</u>	<u>(932,119)</u>
Total Net Position	<u>\$ 1,369,250</u>	<u>\$ 1,568,722</u>

TAHQUAMENON AREA SCHOOL DISTRICT

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2014

During fiscal year ended June 30, 2014, the District's net position decreased by \$199,472, compared to an decrease of \$756 in the prior fiscal year. A few of the significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2014 the recorded depreciation was \$439,447.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

2. Capital Outlay Acquisitions

Actual capital acquisitions for fiscal year ended June 30, 2014 were \$184,809. Substantially all of these purchases were related to the 2010 Building and Equipment Bond.

3. Debt, Principal Payments

The District made principal payments on long-term debt obligations that reduced the amount of the District's long-term liabilities which are discussed on pages 30 and 31 of the Notes to Financial Statements.

TAHQAMENON AREA SCHOOL DISTRICT

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2014

Financial Analysis of the District's Funds

For the fiscal year ended June 30, 2014 and 2013, the condensed Statement of Activities is as follows:

	<u>2014</u>	<u>2013</u>
Program Revenues:		
Fees and Services	\$ 221,899	\$ 283,861
Operating Grants and Contributions	<u>1,293,736</u>	<u>1,487,135</u>
Total Program Revenue	<u>1,515,635</u>	<u>1,770,996</u>
General Revenue:		
Property Taxes Levied for General Operations	3,076,378	2,962,019
Property Taxes Levied for Special Purposes	683,526	664,959
State of Michigan- State Aid	2,354,000	2,269,680
Interest Income	10,183	19,550
Other Revenues	<u>105,523</u>	<u>109,783</u>
Total General Revenue	<u>6,229,610</u>	<u>6,025,991</u>
TOTAL REVENUE	<u>7,745,245</u>	<u>7,796,987</u>
Expenses:		
Instruction	4,269,641	4,487,727
Support Services	2,585,800	2,168,632
Food Services	193,599	391,247
Community Services and Other	375,914	230,382
Unallocated Depreciation	439,447	440,600
Interest on Long-Term Debt	<u>80,316</u>	<u>79,155</u>
TOTAL EXPENSES	<u>7,944,717</u>	<u>7,797,743</u>
Change in Net Position	(199,472)	(756)
Net Position July 1	<u>1,568,722</u>	<u>1,569,478</u>
Net Position June 30	<u>\$ 1,369,250</u>	<u>\$ 1,568,722</u>

Detail Information

Property Taxes levied for General Operations (General Fund Property Taxes)

In 2014, the District received approval from the voters to levy 18 mills of property taxes for General Fund operations on non-homestead properties beginning with the summer collection of 2014. In addition, the District receives other non-real property tax distributions.

During fiscal year 2013-2014, the District's non-homestead real property taxable value was \$166,571,278. At the rate of 18 mills, local property tax collections should have resulted in general operating tax revenue of \$2,998,283 to the District.

State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted, is determined by the following variables:

- a. Foundation allowance for the year set by the current State Aid Act.
- b. Student enrollment.
- c. The District's non-homestead property tax levy.

State aid for the year is calculated by multiplying the 1995 foundation allowance of \$4,357.92 by the current year blended student enrollment. The current year non-homestead tax levy is then subtracted to arrive at the 22a Proposal A amount. The 22b discretionary amount is calculated by multiplying the general education student enrollment by the current year foundation allowance and then subtracting any amount the District receives as reimbursement for the special education program. These two amounts make up the bulk of the State of Michigan Aid. Other amounts the District receives from the State of Michigan are reimbursement of a percentage of special education costs and at-risk funding.

Language remains in Section 6(4)y which allows for a three-year average blended for declining enrollment districts, but only those with 4.5 or few pupils per square mile. Because Tahquamenon Area Schools has approximately 0.7 students per square mile, the District receives funding for more students than we actually have. The formula for calculating the three year average blend is a straight average of the three blends.

TAHQAMENON AREA SCHOOL DISTRICT

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2014

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Tahquamenon Area School District's foundation allowance for the 2013-2014 school year was \$7,026 per student. This is an increase of \$60 over the State's foundation allowance per student of \$6,966 for the 2012-2013 school year.

The projected foundation allowance for 2014-2015 is \$7,126.

Student Enrollment:

The District's student enrollment for the fall count of 2013-2014 was 717.40 students. The District's enrollment has declined in the past five years by 210.4 FTEs. The following summarizes fall student enrollments for the past five school years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
September, 2013	717.40	-24.00
September, 2012	741.40	-19.70
September, 2011	761.10	-16.90
September, 2010	778.00	-78.00
September, 2009	856.00	-71.80

Subsequent to year-end June 30, 2014, the district's preliminary student enrollment estimates for 2014-2015 indicate that enrollment may decline by about 10 students from the 2013-2014 count. District budget projections for 2014-2015 reflected that anticipated decline.

Property Taxes levied for Debt Service:

In May of 2010, the Tahquamenon Area School District voters approved a proposal to borrow a sum not to exceed Five Million, Two Hundred and Twenty-Five Thousand (\$5,225,000.00) and issue its general obligation unlimited tax bonds therefore, for the purpose of: installation of modern, energy efficient building-wide heating system, new computer equipment and purchase ten buses. The maximum number of years these bonds can be outstanding, exclusive of any refunding, is ten years. The estimated simple average annual millage anticipated to be required to retire this bond debt is 2 mills.

TAHQAMENON AREA SCHOOL DISTRICT

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2014

Federal Funding:

The Tahquamenon Area School District receives a substantial amount of federal dollars under the No Child Left Behind (NCLB) legislation. As the largest federal program supporting elementary and secondary education, Title I targets these NCLB funds to the districts and schools where the needs are the greatest based on income levels. Title I, Part A, for which Tahquamenon was eligible to receive \$257,694 during the current school year, is intended to help ensure that all children have the opportunity to obtain a high-quality education and reach proficiency on challenging state academic standards and assessments. In addition, the District was eligible for other NCLB funds for other specified purposes. The following indicate the District's expenditures in each area of NCLB federal funds for the past two school years:

	2013-2014	2012-2013
Title I, Part A	\$ 221,625	\$ 293,168
Title II, Part A, Improving Teacher Quality	135,208	73,827
Title VII, Indian Education Grant	21,264	7,700

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES / FUND BALANCES

General Fund Expenditures Budget Vs. Actual 5-Year History

Fiscal Year	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Final Budget	Expenditures Percent Variance Positive (Negative)
2009 – 2010	8,222,784	8,175,736	47,048	.6%
2010 – 2011	7,668,307	7,737,447	(69,140)	(.9%)
2011 - 2012	7,492,420	7,409,146	83,274	1.11%
2012 - 2013	6,743,512	6,760,153	(16,641)	(.25%)
2013 - 2014	6,621,884	6,670,066	(48,182)	(.73%)

TAHQUAMENON AREA SCHOOL DISTRICT

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2014

General Fund Revenue Budget Vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual & Final Budget</u>	<u>Revenues Percent Variance Positive (Negative)</u>
2009 – 2010	8,349,855	8,335,072	(14,783)	(.18%)
2010 – 2011	7,798,656	7,866,690	68,034	.87%
2011 - 2012	7,095,803	7,118,326	22,523	.32%
2012 - 2013	6,610,617	6,668,450	57,833	.87%
2013 - 2014	6,600,378	6,624,540	24,162	.37%

General Fund Fund Balance, 5-Year History

<u>Fiscal Year</u>	<u>Nonspendable</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
2009 – 2010	17,786	251,129	52,005	320,920
2010 – 2011	4,996	91,665	348,983	445,644
2011 – 2012	2,981	-	123,628	126,609
2012 – 2013	51,500	-	(10,999)	40,501
2013 – 2014	49,330	-	(39,355)	9,975

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the Tahquamenon Area School District Board approves its initial budget as mandated by the state. However, this original budget is in summary form by source of revenue and by expenditure functions and objects, not individual budget line items. The District then approves a detailed line item budget annually in October. The District periodically amends its budget as needed throughout the school fiscal year.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Tahquamenon Area School District Business Office by visiting or writing at 700 Newberry Avenue, Newberry, MI 49868 or by calling 906-293-3226.

TAHQAMENON AREA SCHOOLS

STATEMENT OF NET POSITION

June 30, 2014

<u>ASSETS</u>	<u>Governmental Activities</u>
Current Assets:	
Cash	\$ 462,486
Due from other governmental units	737,465
Other receivables	10,080
Inventories and prepaid expenses	56,112
Cash in restricted accounts available to pay current liabilities	<u>668,166</u>
TOTAL CURRENT ASSETS	<u>1,934,309</u>
Capital Assets:	
Land	74,232
Buildings and improvements	8,588,397
Equipment	682,905
Buses	803,103
Less: accumulated depreciation	<u>(4,830,471)</u>
NET CAPITAL ASSETS	<u>5,318,166</u>
Other Assets:	
Land contract receivable	<u>7,485</u>
Deferred Outflows of Resources:	
Bond discount	<u>15,873</u>
TOTAL ASSETS	<u>7,275,833</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	71,713
Notes payable	500,000
Employee benefits and other liabilities	156,614
Salaries payable	395,772
Current portion of accumulated unpaid benefits	157,867
Current portion of long-term obligations, including accrued interest	<u>541,352</u>
TOTAL CURRENT LIABILITIES	<u>1,823,318</u>
Noncurrent Liabilities:	
Noncurrent portion of accumulated unpaid benefits	1,198,265
Noncurrent portion of long-term obligations	<u>2,885,000</u>
TOTAL NONCURRENT LIABILITIES	<u>4,083,265</u>
TOTAL LIABILITIES	<u>5,906,583</u>
 <u>NET POSITION</u>	
Invested in capital assets, net of related debt	1,903,166
Restricted for:	
Debt service	157,242
Capital projects	499,572
Unrestricted (deficit)	<u>(1,190,730)</u>
TOTAL NET POSITION \$	<u><u>1,369,250</u></u>

See accompanying notes to financial statements.

TAHQUAMENON AREA SCHOOLS

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
<u>Functions/Programs</u>		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
		<u>and Fees</u>	<u>Contributions</u>	<u>Net Assets</u>
Governmental Activities:				
Instruction	\$ 4,269,641	\$ -	\$ 761,833	\$ (3,507,808)
Support services	2,585,800	54,070	280,156	(2,251,574)
Community/ other	193,599	45,434	-	(148,165)
Food services	375,914	122,395	251,747	(1,772)
Interest on long-term debt	80,316	-	-	(80,316)
Unallocated depreciation	439,447	-	-	(439,447)
Total governmental activities	\$ <u>7,944,717</u>	\$ <u>221,899</u>	\$ <u>1,293,736</u>	<u>(6,429,082)</u>
General Revenues:				
Property taxes:				
General operation				3,076,378
Special purpose				683,526
State school aid				2,354,000
Interest income				10,183
Miscellaneous revenues				<u>105,523</u>
			Total general revenues	<u>6,229,610</u>
Change in net position				(199,472)
Net position - July 1, 2013				<u>1,568,722</u>
Net position - June 30, 2014				<u>\$ <u>1,369,250</u></u>

See accompanying notes to financial statements.

TAHQUAMENON AREA SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2014

	General Fund	Construction Fund	Nonmajor Governmental Funds	Total
<u>ASSETS</u>				
Cash	\$ 313,283	\$ -	\$ 149,203	\$ 462,486
Due from other funds	16,135	-	-	16,135
Due from other governmental units	737,465	-	-	737,465
Other receivables	10,080	-	-	10,080
Inventories and prepaid expenses	49,330	-	6,782	56,112
Cash in restricted accounts	-	499,572	168,594	668,166
TOTAL ASSETS	\$ <u>1,126,293</u>	\$ <u>499,572</u>	\$ <u>324,579</u>	\$ <u>1,950,444</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 63,932	\$ -	\$ 7,781	\$ 71,713
Due to other funds	-	-	16,135	16,135
Due to other governmental units	62,470	-	-	62,470
Notes payable	500,000	-	-	500,000
Employee benefits and other accrued expenses	94,144	-	-	94,144
Salaries payable	395,772	-	-	395,772
Deferred revenue	-	-	-	-
TOTAL LIABILITIES	1,116,318	-	23,916	1,140,234
Fund Balance:				
Nonspendable	49,330	-	6,782	56,112
Restricted for:				
Capital projects	-	499,572	-	499,572
Debt Service	-	-	168,594	168,594
Assigned for:				
Nonmajor special revenue funds	-	-	125,287	125,287
Unassigned	(39,355)	-	-	(39,355)
TOTAL FUND BALANCES	9,975	499,572	300,663	810,210
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>1,126,293</u>	\$ <u>499,572</u>	\$ <u>324,579</u>	\$ <u>1,950,444</u>

See accompanying notes to financial statements.

TAHQUAMENON AREA SCHOOLS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

June 30, 2014

Total fund balances-governmental funds	\$	810,210
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Cost of capital assets	\$	10,148,637
Accumulated depreciation		(4,830,471)
		5,318,166
<p>Certain assets and deferred outflows applicable to governmental activities do not represent current financial resources and therefore are not reported as assets in the governmental funds.</p>		
Land contract receivable	\$	7,485
Bond discount		15,873
		23,358
<p>Long-term liabilities, including bonds payable and certain employee benefits, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.</p>		
		(4,771,132)
<p>Accrued interest on bonds not due and payable in the current period is not reported as a liability in the governmental funds.</p>		
		(11,352)
Total net position-governmental activities	\$	1,369,250

See accompanying notes to financial statements.

TAHQUAMENON AREA SCHOOLS

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

For the year ended June 30, 2014

	General Fund	Construction Fund	Nonmajor Governmental Funds	Total
<u>REVENUES</u>				
Local sources	\$ 3,228,015	\$ 4,452	\$ 865,644	\$ 4,098,111
State sources	2,758,084	-	14,868	2,772,952
Federal sources	482,703	-	236,343	719,046
Interdistrict and other	155,738	-	-	155,738
TOTAL REVENUES	6,624,540	4,452	1,116,855	7,745,847
<u>EXPENDITURES</u>				
Current:				
Instruction	4,154,192	-	-	4,154,192
Supporting services	2,515,874	-	-	2,515,874
Food services	-	-	375,914	375,914
Library	-	-	143,700	143,700
Other expenditures	-	-	1,152	1,152
Capital outlay	-	200,483	-	200,483
Debt Service:				
Principal retirement	-	-	505,000	505,000
Interest expense	-	-	79,101	79,101
TOTAL EXPENDITURES	6,670,066	200,483	1,104,867	7,975,416
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(45,526)	(196,031)	11,988	(229,569)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	15,000	-	-	15,000
Transfers out	-	-	(15,000)	(15,000)
NET CHANGE IN FUND BALANCES	(30,526)	(196,031)	(3,012)	(229,569)
Fund Balance, July 1	40,501	695,603	303,675	1,039,779
FUND BALANCE, JUNE 30	\$ 9,975	\$ 499,572	\$ 300,663	\$ 810,210

See accompanying notes to financial statements.

TAHQUAMENON AREA SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2014

Total net change in fund balance-governmental funds	\$	(229,569)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures, but in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay exceeded depreciation in the current period is as follows:</p>		
Assets capitalized	\$	184,809
Depreciation expense		<u>(439,447)</u>
		(254,638)
<p>Certain assets applicable to governmental activities do not represent current financial resources and therefore are not reported as assets in the in the governmental funds and were expensed when acquired or revenue recognition was deferred until collected.</p>		
		(2,817)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		505,000
<p>Interest on long-term debt in the statement of activities includes accrued interest, while the governmental funds statement does not. The current year effect of differences in interest expense recognition.</p>		
		1,000
<p>Bond issuance costs were recognized as expenditures in the governmental funds when the debt was issued, but were deferred in prior years and written off in the current year.</p>		
		(33,073)
<p>Governmental funds report expenditures for payment of unpaid sick leave and early retirement incentive benefits as they become due. However, in the statement of activities those expenditures are accrued as they are earned. The current year effect of differences in recording these benefits.</p>		
		<u>(185,375)</u>
Change in net position of governmental activities	\$	<u><u>(199,472)</u></u>

See accompanying notes to financial statements.

TAHQAMENON AREA SCHOOLS

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	Private Purpose Trust Funds	Agency Fund
<u>ASSETS</u>		
Cash	\$ 147,645	\$ 122,663
TOTAL ASSETS	\$ 147,645	\$ 122,663
<u>LIABILITIES</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ -	\$ 4,137
Due to student and school related groups	-	118,526
TOTAL LIABILITIES	-	\$ 122,663
<u>NET POSITION</u>		
Net assets held in trust for scholarships and other school designated purposes	\$ 147,645	

See accompanying notes to financial statements.

TAHQAMENON AREA SCHOOLS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2014

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS</u>	
Contributions and interest	\$ <u>1,618</u>
TOTAL ADDITIONS	<u>1,618</u>
 <u>DEDUCTIONS</u>	
Scholarships and awards	3,775
School support expenditures	<u>6,926</u>
TOTAL DEDUCTIONS	<u>10,701</u>
CHANGE IN NET POSITION	(9,083)
NET POSITION, JULY 1	<u>156,728</u>
NET POSITION, JUNE 30	\$ <u><u>147,645</u></u>

See accompanying notes to financial statements.

TAHQAMENON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tahquamenon Area Schools (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Michigan. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies of the District applied in the preparation of the accompanying financial statements is provided below.

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units as required under Governmental Accounting Standards Board Statement Number 14, “The Financial Reporting Entity”. Based upon the criteria outlined in this statement, the financial statements of the District contain all the funds controlled by the District’s Board. There are no other entities which meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

District-wide and Fund Financial Statements

The District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, grants, and other intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District’s government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly reported as program revenues are reported as general revenue.

TAHQUAMENON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been substantially eliminated from the District-wide financial statements. It is the District's policy to use available restricted resources prior to unrestricted resources.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

TAHQAMENON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental Funds

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Construction Fund - The Construction Fund is used to account for capital acquisitions and improvements allowable with the proceeds from the issuance of the 2010 building and site bonds and the 2010 building and equipment bonds.

Additionally, the District reports the following nonmajor governmental fund types:

Special Revenue Funds - Special revenue funds are used to account for restricted revenues used for food service and public library activities.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for principal and interest payments on specific outstanding bond issues.

Capital Projects Funds - The capital project funds are used to account for the accumulation and disbursement of assets for major repair of capital facilities and other capital asset acquisitions.

Fiduciary Funds

The District reports the following fiduciary funds:

Private Purpose Trust Funds - The funds are used to account for monies donated for the benefit of individuals in the form of scholarships or for other specified purposes.

TAHQUAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Funds - Agency funds account for assets held by the District in a custodial capacity. The District's agency fund is the Student Activities Fund.

Other Accounting Policies

Restricted Cash - Cash balances that are use restricted by external requirements are reported as restricted cash.

Inventory - The District utilizes the purchase method for recording the inventories of material and supplies. Under the purchase method, inventories are recorded as an expenditure when acquired, regardless of when used.

The District utilizes the consumption method for recording food inventories and, accordingly, the inventory is recorded as an expenditure when used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Due From Other Governmental Units - Amounts due from other governmental units consist of various revenues due from federal, state and interdistrict sources. These revenues represent amounts used for the operation of special programs and grant projects, and for the final current year payment of state aid which will be received after year-end.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The District does not have infrastructure assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and additions	16 - 50 years
Equipment	5 - 20 years
Buses	7 years

In the fund financial statements, capital assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

TAHQUAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - The District has evaluated subsequent events through October 27, 2014, the date the financials statements were available to be issued.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements and other restricted revenue received before the eligibility requirements are met are recorded as unearned revenue.

Accumulated Unpaid Benefits - The liability for accumulated unpaid benefits reported in the District-wide statements consists of accumulated unpaid sick leave and an obligation for accumulated early retirement benefits. The liability has been calculated using the vesting method which includes accumulated leave amounts for currently eligible employees and other employees who are expected to become eligible in the future.

Long-term Obligations - In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds in the period received.

Deferred Outflows of Resources - Deferred outflows of resources are the consumption of net assets which are applicable to a future reporting period. The reporting of deferred outflows of resources is restricted to specific items established in account standards, and the recording thereof has a positive effect on net position or fund balance, as applicable.

Deferred Inflows of Resources - Deferred inflows of resources are the acquisition of net assets which are applicable to a future reporting period. The reporting of deferred inflows of resources is restricted to specific items established in accounting standards, and the recording thereof has a negative effect on net position or fund balance, as applicable. The District has no reported deferred inflows of resources.

Net Position Classifications - In the District-wide financial statements, equity is classified as net position and displayed in three components:

1. Invested in capital assets, net of related debt - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

TAHQAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Restricted net position- consists of net assets with constraints on their use that are externally imposed (by creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation.
3. Unrestricted net position- all other net assets that do not meet the definition of either of the other two components.

Fund Balance Classifications - In the governmental fund financial statements, equity is classified as fund balance and reported in four components:

1. Nonspendable - consists of amounts that are not in a spendable form, such as inventory and prepaid expenses.
2. Restricted fund balances - consists of fund balance amounts that can be spent only for specific purposes as stipulated by external resource providers or by law through constitutional provisions or enabling legislation.
3. Assigned fund balances - consists of fund balance amounts that are intended to be used for a specific purpose but no formal action has been taken that would limit future expenditures for only the intended specific purpose.
4. Unassigned fund balance - the residual classification for the District's General Fund and includes all spendable amounts not reported in other classifications.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing the financial statements include the determination of the District's liability for the future payment of retirement incentives to current employees. Actual results could differ from the estimates and assumptions applied by the District.

Budgets and Budgetary Accounting - The District follows these procedures in establishing the governmental fund budgets as reflected in the financial statements:

1. In June, the Superintendent submits to the Board proposed operating budgets for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.

TAHQAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Prior to June 30, the budgets are legally enacted through passage of a resolution.
4. For purposes of meeting emergency needs of the District, transfers of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board at its next regularly scheduled meeting.
5. The Superintendent is charged with general supervision of the budget.
6. During the year, the budgets are monitored and amendments to the budget resolution are made when deemed necessary.
7. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts reported in the basic financial statements are as originally adopted, or as amended by the Board.

Bonded Construction Costs - Capital projects include capital project activities funded with bonds issued after May 1, 1994. The District has complied with the applicable provision of Section 1351a of the Michigan Revised School Code for these project activities. Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital project funds.

Property Taxes - The District's property tax is levied on July 1 and December 1 and is based on taxable valuation of property as of the preceding December 31. Taxes are collected and remitted to the District by the tax collecting units within the District and generally become delinquent seventy-five days after the levy date. Unpaid real property taxes as of February 28 are turned over to the County Treasurer for collection. The County maintains a tax revolving fund which permits the County to pay the District 100% of the delinquent real taxes within approximately two to three months after the delivery of the delinquent tax bills.

State Aid - The District reports State of Michigan aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts.

TAHQAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards - Effective with the year ended June 30, 2014, the District has adopted the reporting standards contained in Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and reporting standards regarding the reporting as deferred outflows and inflows of resources items previously reported as assets and liabilities. The statement also provides other guidance regarding the financial reporting of deferred outflows and inflows of resources.

Upcoming Accounting and Reporting Changes - The Government Accounting Standards Board has issued *Statement 68, Accounting and Financial Reporting for Pensions*. Statement 68, as amended by GASB 71, requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 68 is effective for the year ending June 30, 2015.

NOTE B - CASH DEPOSITS AND INVESTMENTS

State statutes govern the types of investments in which the District is allowed to invest. In general, the District is authorized to invest funds held by its governmental funds in savings and deposit accounts in qualified financial institutions. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest is fully guaranteed by the United States, investments in commercial paper rated prime at the time of purchase and which matures not more than 270 days after the date of purchase and mutual funds and investment pools holding conforming investments.

A summary of cash balances as of June 30, 2014 is as follows:

Governmental Activities:	
Deposits (checking and savings)	\$ 1,130,652
Fiduciary Funds:	
Deposits (checking and savings)	185,948
Certificates of deposit	<u>84,360</u>
	\$ <u>1,400,960</u>

TAHQAMENON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B - CASH DEPOSITS AND INVESTMENTS (Continued)

Deposits and investments are by their nature subject to varying degrees of risk that may limit the District's ability to (1) maintain the fair value of deposits and investment, (2) insure issuer's compliance with the terms and commitments of deposits and investments and (3) insure the return of principal amounts deposited or invested. The District has managed these risks by maintaining liquidity in their deposits and investments.

The District's cash consists of various interest bearing savings and checking accounts and certificates of deposit held at financial institutions located in the State of Michigan. At June 30, 2014, the carrying value of the District's deposits was \$1,400,960 and the total bank balances were \$1,561,792. Bank balances subject to custodial credit risk because balances were uninsured and uncollateralized totaled \$1,351,892. Restricted cash balances totaling \$668,166 as of June 30, 2014 are restricted for future debt service and capital improvements.

NOTE C - SHORT-TERM DEBT ACTIVITY

The District issues state aid anticipation notes in advance of receiving its first state aid payment for the year. Short-term debt activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2014</u>
State aid anticipation notes:				
.95% due 8/13	\$ 500,000	\$ -	\$ 500,000	\$ -
1.00% due 8/14	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

NOTE D - INTERFUND TRANSFERS AND BALANCES

The interfund transfer during the year ended June 30, 2014 was a nonmajor fund transfer of \$15,000 to the General Fund for partial reimbursement of administrative expenses.

Interfund balances as of June 30, 2014 represented a General Fund receivable from a nonmajor fund in the amount of \$16,315. The interfund balance is used for short-term cash flow purposes.

TAHQUAMENON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 74,232	\$ -	\$ -	\$ 74,232
Capital assets being depreciated:				
Buildings and improvements	8,588,397	-	-	8,588,397
Equipment	578,248	104,657	-	682,905
Buses	<u>826,532</u>	<u>80,152</u>	(<u>103,581</u>)	<u>803,103</u>
Total Cost	10,067,409	184,809	(103,581)	10,148,637
Accumulated depreciation	(<u>4,494,605</u>)	(<u>439,447</u>)	<u>103,581</u>	(<u>4,830,471</u>)
NET CAPITAL ASSETS	<u>\$5,572,804</u>	(\$ <u>254,638</u>)	\$ <u>-</u>	<u>\$5,318,166</u>

Depreciation for the fiscal year ended June 30, 2014 amounted to \$439,447. The District has not allocated depreciation among the various governmental activities.

NOTE F - ACCUMULATED UNPAID TERMINATION BENEFITS

The District, as part of the various employment contracts with its personnel, provides the following termination benefits with respect to sick leave and early retirement incentives:

Sick Leave - In general, all employees are allowed to accumulate unused sick days which become vested upon reaching early retirement age of 50 with at least ten years of service. Upon retirement, vested accumulated sick days are paid out at one-half of the employee's last salary or wage rate, subject to then current limitations based upon accumulation policies and maximum dollar payments.

Early Retirement Incentive - Teachers hired prior to July 1, 2004 are eligible for early retirement benefits upon reaching age 50 with at least ten years of service. In general, the early retirement incentive includes two benefits:

TAHQUAMENON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F - ACCUMULATED UNPAID TERMINATION BENEFITS (Continued)

1. An annual stipend equal to .5% for each year of service times the individual's highest salary. The percentage used for the stipend is reduced by 1.5 percentage points each year after retirement.
2. Payment of 4% of the retiree's annual insurance premiums for each year of service.

These benefits terminate when the individual reaches age 65 or, if earlier, when the employee begins drawing his own social security benefits. The total early retirement incentive liability at June 30, 2014 includes benefits payable to former employees and for benefits earned by current employees who are or are expected to become eligible for these benefits.

A summary of changes in accumulated unpaid employee benefits for the year ended June 30, 2014, is as follows:

	Balance			Balance	Estimated
	July 1, 2013	Additions	Reductions	June 30, 2014	Amount Due Within One Year
Accumulated sick pay	\$ 442,023	\$ 32,906	\$ -	\$ 474,929	\$ 81,150
Early retirement incentive	<u>728,734</u>	<u>152,469</u>	<u>-</u>	<u>881,203</u>	<u>76,717</u>
Total	\$ <u>1,170,757</u>	\$ <u>185,375</u>	\$ <u>-</u>	\$ <u>1,356,132</u>	\$ <u>157,867</u>

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2014 is summarized as follows:

	Balance			Balance	Amount Due
	July 1, 2013	Additions	Reductions	June 30, 2014	Within One Year
General Obligation Bonds:					
2010 Building and Equip.	\$ 1,470,000	\$ -	\$ 205,000	\$ 1,265,000	\$ 210,000
2010 Building and Site	<u>2,450,000</u>	<u>-</u>	<u>300,000</u>	<u>2,150,000</u>	<u>320,000</u>
Total	\$ <u>3,920,000</u>	\$ <u>-</u>	\$ <u>505,000</u>	\$ <u>3,415,000</u>	\$ <u>530,000</u>

TAHQUAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G - LONG-TERM DEBT (Continued)

Outstanding long-term debt as of June 30, 2014 consisted of the following:

2010 School Building and Equipment Series A Qualified Zone Academy general obligation bonds issued at a 0% interest rate. Original issue amount of \$2,000,000 requiring increasing annual principal payments with the final payment of \$215,000 due May 1, 2020.

2010 School Building and Site Series B general obligation serial bonds due in increasing annual principal payments, with individual bond interest rates varying from 2% to 3.6%. Original issue in the amount of \$3,225,000 and final principal payment of \$400,000 due May 1, 2020.

The estimated debt service requirements for bond principal and interest to maturity as of June 30, 2014 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 530,000	\$ 68,113	\$ 598,113
2016	545,000	60,112	605,112
2017	560,000	50,062	610,062
2018	575,000	39,563	614,563
2019	590,000	27,700	617,700
2020	<u>615,000</u>	<u>14,400</u>	<u>629,400</u>
TOTAL	\$ <u>3,415,000</u>	\$ <u>259,950</u>	\$ <u>3,674,950</u>

NOTE H - PENSION PLAN

Plan Description - The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing, multiple-employer, state-wide public employee defined benefit pension plan governed by the State of Michigan. MPERS provides retirement, survivor and disability benefits to the State's public school employees. In addition, employees can elect to receive postemployment health care benefits for themselves and their beneficiaries. MPERS operates within the Michigan Department of Technology, Management and Budget, Office of Retirement Services, under the Michigan Public School Employees Retirement Act, as amended. MPERS issues a publically available comprehensive annual financial report that includes financial statements and required supplementary information for the Plan. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

TAHQAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H - PENSION PLAN (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementation of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

Postemployment Benefits - In addition to the pension benefits described above, state law requires the School District to provide post-retirement healthcare benefits for eligible retirees and beneficiaries through the MPSERS. The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after September 3, 2012 can elect to be enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes 2% of their salary, and receives a 2% employer match. These funds can be used to pay for healthcare expenses in retirement. Employees working prior to September 4, 2012 have two options: (a) the personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement, members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors. Employees electing the Personal Healthcare Fund will be entitled in a 2 percent employee contribution into their 457 account as of their transition date and a 2 percent employer match into the employee's 401k account.

TAHQUAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H - PENSION PLAN (Continued)

Contributions - For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contributions rates:

:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF	Pension Plus to DC with PHF	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health Contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined Contribution Plan Employer Contributions:							
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF	Pension Plus to DC with PHF	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health Contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined Contribution Plan Employer Contributions:							
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

TAHQUAMENON AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H - PENSION PLAN (Continued)

The School District's contributions to the plans for the years ended June 30 2014, 2013, and 2012 were \$987,912, \$857,142 and \$893,024, respectively.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty risks and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. Each of the pools maintain reinsurance for excess claims. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE J - COMMITMENTS AND CONTINGENCIES

The District has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the District. However, in the opinion of the management, any such disallowed claims will not have a material effect on any of the financial statements of the individual funds or on the overall financial position of the School District at June 30, 2014.

REQUIRED SUPPLEMENTAL INFORMATION

TAHQAMENON AREA SCHOOLS

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
<u>REVENUES</u>				
Local sources	\$ 3,043,370	\$ 3,177,907	\$ 3,228,015	\$ 50,108
State sources	2,812,553	2,775,150	2,758,084	(17,066)
Federal sources	502,482	522,821	482,703	(40,118)
Interdistrict and other	130,295	124,500	155,738	31,238
	6,488,700	6,600,378	6,624,540	24,162
<u>EXPENDITURES</u>				
Basic instruction	2,867,355	2,958,406	2,967,504	(9,098)
Added needs	1,475,095	1,203,280	1,186,688	16,592
Pupil support	68,300	194,858	194,302	556
Instruction staff support	106,889	250,436	241,150	9,286
General administration	250,821	234,100	248,692	(14,592)
School administration	310,022	348,502	346,804	1,698
Business services	177,095	184,280	184,610	(330)
Operating buildings services	495,611	492,880	486,423	6,457
Pupil transportation services	512,792	500,655	519,137	(18,482)
Technology services	128,500	132,969	138,322	(5,353)
Athletic activities	102,399	114,900	152,783	(37,883)
Community activities	-	6,618	3,651	2,967
	6,494,879	6,621,884	6,670,066	(48,182)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,179)	(21,506)	(45,526)	(24,020)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	15,000	15,000	15,000	-
NET CHANGE IN FUND BALANCE	8,821	(6,506)	(30,526)	(24,020)
FUND BALANCE, JULY 1	40,501	40,501	40,501	-
FUND BALANCE, JUNE 30	\$ 49,322	\$ 33,995	\$ 9,975	\$ (24,020)

OTHER SUPPLEMENTAL INFORMATION

TAQUAMENON AREA SCHOOLS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total</u>
	<u>Food Service</u>	<u>Public Library</u>	<u>2010 Debt</u>		
<u>ASSETS</u>					
Cash	\$ 24,381	\$ 124,822	\$ 168,594	\$	317,797
Inventories	<u>6,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,782</u>
	\$ 31,163	\$ 124,822	\$ 168,594	\$	<u>324,579</u>
	<u>TOTAL ASSETS</u>				<u>324,579</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts payable	\$ 133	\$ 7,648	\$ -	\$	7,781
Due to other funds	<u>16,135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,135</u>
	<u>16,268</u>	<u>7,648</u>	<u>-</u>	<u>-</u>	<u>23,916</u>
	<u>TOTAL LIABILITIES</u>				<u>23,916</u>
Fund Balance:					
Nonspendable	6,782	-	-	-	6,782
Restricted/assigned for specific purposes	<u>8,113</u>	<u>117,174</u>	<u>168,594</u>	<u>168,594</u>	<u>293,881</u>
	<u>14,895</u>	<u>117,174</u>	<u>168,594</u>	<u>168,594</u>	<u>300,663</u>
	<u>TOTAL FUND BALANCE</u>				<u>300,663</u>
	\$ 31,163	\$ 124,822	\$ 168,594	\$	<u>324,579</u>
	<u>TOTAL LIABILITIES AND FUND BALANCE</u>				<u>324,579</u>

TAHQAMENON AREA SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	Special Revenue		Debt Service		Total
	Food Service	Public Library	2010 Debt		
<u>REVENUES</u>					
Local sources	\$ 122,610	\$ 153,973	\$ 589,061		\$ 865,644
State sources	14,868	-	-		14,868
Federal sources	236,343	-	-		236,343
	373,821	153,973	589,061		1,116,855
<u>TOTAL REVENUES</u>					
	375,914	143,700	1,152		505,000
<u>EXPENDITURES</u>					
Current Operating:					
Food services	375,914	-	-		375,914
Public Library	-	143,700	-		143,700
Other expenditures	-	-	1,152		1,152
Debt Service:					
Principal retirement	-	-	505,000		505,000
Interest expense	-	-	79,101		79,101
	375,914	143,700	585,253		1,104,867
<u>TOTAL EXPENDITURES</u>					
	(2,093)	10,273	3,808		11,988
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>					
	(15,000)	-	-		(15,000)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers out					
	(17,093)	10,273	3,808		(3,012)
<u>NET CHANGE IN FUND BALANCES</u>					
	31,988	106,901	164,786		303,675
<u>FUND BALANCE, JULY 1</u>					
	\$ 14,895	\$ 117,174	\$ 168,594		\$ 300,663
<u>FUND BALANCE, JUNE 30</u>					

TAHQAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance- Favorable (Unfavorable)
<u>REVENUES</u>			
Revenue from Local Sources:			
Property taxes	\$ 3,074,057	\$ 3,076,378	\$ 2,321
Earnings on investments and deposits	3,500	3,235	(265)
Athletics	15,300	54,070	38,770
Miscellaneous local revenues	85,050	94,332	9,282
TOTAL REVENUE FROM LOCAL SOURCES	3,177,907	3,228,015	50,108
Revenue from State Sources:			
State school aid	2,117,205	2,100,442	(16,763)
At risk	180,181	179,347	(834)
Special education	259,663	259,663	-
MPSERS offset and other	218,101	218,632	531
TOTAL REVENUE FROM STATE SOURCES	2,775,150	2,758,084	(17,066)
Revenue from Federal Sources:			
Title I	242,976	221,624	(21,352)
Title IIA, Improving Teacher Quality	139,279	135,208	(4,071)
Indian Education	21,264	21,264	-
Flow-through	97,425	97,425	-
Preschool	5,392	5,392	-
Medicaid reimbursement	16,485	1,790	(14,695)
TOTAL REVENUE FROM FEDERAL SOURCES	522,821	482,703	(40,118)

TAHQUAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance- Favorable (Unfavorable)
Revenue from Interdistrict and Other:			
Intermediate School District:			
Special education transportation	42,000	42,049	49
Other ISD sponsored activities	82,500	113,689	31,189
TOTAL REVENUE FROM INTERDISTRICT AND OTHER	124,500	155,738	31,238
TOTAL REVENUES	\$ 6,600,378	\$ 6,624,540	\$ 24,162
 <u>EXPENDITURES</u>			
Expenditures for Basic Instruction:			
Elementary:			
Salaries	\$ 856,242	\$ 863,851	\$ (7,609)
Purchased services	18,100	15,052	3,048
Supplies, materials and other	10,217	10,009	208
TOTAL ELEMENTARY	884,559	888,912	(4,353)
Secondary:			
Salaries	871,748	875,047	(3,299)
Purchased services	40,700	37,029	3,671
Supplies, materials and other	12,605	12,075	530
TOTAL SECONDARY	925,053	924,151	902
Employee benefits	1,148,794	1,154,441	(5,647)
TOTAL BASIC INSTRUCTION	2,958,406	2,967,504	(9,098)

TAHQUAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenditures for Added Needs:			
Special Education:			
Salaries	471,173	472,722	(1,549)
Purchased services	8,500	8,147	353
Supplies, materials and other	1,667	1,435	232
	<u>481,340</u>	<u>482,304</u>	<u>(964)</u>
TOTAL SPECIAL EDUCATION			
Compensatory Education:			
Salaries	232,541	229,286	3,255
Purchased services	14,878	6,358	8,520
Supplies, materials and other	16,566	20,295	(3,729)
	<u>263,985</u>	<u>255,939</u>	<u>8,046</u>
TOTAL COMPENSATORY EDUCATION			
Employee benefits	457,955	448,445	9,510
	<u>1,203,280</u>	<u>1,186,688</u>	<u>16,592</u>
TOTAL ADDED NEEDS			
Expenditures for Pupil Support:			
Guidance:			
Salaries	66,800	67,289	(489)
Supplies, materials and other	250	228	22
	<u>67,050</u>	<u>67,517</u>	<u>(467)</u>
TOTAL GUIDANCE			
Other Pupil Services:			
Salaries	13,893	13,893	-
Purchased services	66,423	65,423	1,000
Supplies, materials and other	1,000	1,222	(222)
	<u>81,316</u>	<u>80,538</u>	<u>778</u>
TOTAL OTHER PUPIL SERVICES			

TAHQUAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenditures for Pupil Support (continued):			
Employee benefits	46,492	46,247	245
TOTAL PUPIL SUPPORT	194,858	194,302	556
Expenditures for Instruction Staff Support:			
At Risk:			
Salaries	6,169	6,162	7
Title I:			
Salaries	455	455	-
Title IIA:			
Salaries	67,370	63,650	3,720
Purchased services	801	1,117	(316)
Supplies, materials and other	15,037	12,457	2,580
Special Education:			
Salaries	63,370	63,470	(100)
Testing Coordinator:			
Salaries	5,000	5,000	-
Supplies, materials and other	2,200	1,278	922
Other:			
ISD sponsored teaching supplies	1,147	1,523	(376)
Employee benefits	88,887	86,038	2,849
TOTAL INSTRUCTION STAFF SUPPORT	250,436	241,150	9,286
Expenditures for General Administration:			
Board of Education:			
Purchased services	36,694	51,326	(14,632)
Supplies, materials and other	4,567	3,972	595
TOTAL BOARD OF EDUCATION	41,261	55,298	(14,037)

TAHQUAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenditures for General Administration (Continued):			
Superintendent:			
Salaries	119,128	118,629	499
Purchased services	3,050	4,538	(1,488)
Supplies, materials and other	<u>2,322</u>	<u>2,111</u>	<u>211</u>
TOTAL SUPERINDENDENT	<u>124,500</u>	<u>125,278</u>	<u>(778)</u>
Employee benefits	<u>68,339</u>	<u>68,116</u>	<u>223</u>
TOTAL GENERAL ADMINISTRATION	<u>234,100</u>	<u>248,692</u>	<u>(14,592)</u>
Expenditures for School Administration:			
Salaries	204,162	203,921	241
Purchased services	1,077	1,391	(314)
Supplies, materials and other	1,982	2,012	(30)
Employee benefits	<u>141,281</u>	<u>139,480</u>	<u>1,801</u>
TOTAL SCHOOL ADMINISTRATION	<u>348,502</u>	<u>346,804</u>	<u>1,698</u>
Expenditures for Business Services:			
Fiscal Services:			
Salaries	31,361	31,461	(100)
Purchased services	38,984	39,301	(317)
Supplies, materials and other	11,203	12,144	(941)
Other:			
Insurance, interest and other	91,512	90,537	975
Employee benefits	<u>11,220</u>	<u>11,167</u>	<u>53</u>
TOTAL BUSINESS SERVICES	<u>184,280</u>	<u>184,610</u>	<u>(330)</u>

TAHQAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenditures for Operating Buildings Services:			
Salaries	41,129	41,025	104
Purchased services	415,386	409,423	5,963
Supplies, materials and other	1,713	3,051	(1,338)
Employee benefits	34,652	32,924	1,728
	<u>492,880</u>	<u>486,423</u>	<u>6,457</u>
TOTAL OPERATING BUILDINGS SERVICES	<u>492,880</u>	<u>486,423</u>	<u>6,457</u>
Expenditures for Pupil Transportation Services:			
Salaries	150,628	158,430	(7,802)
Purchased services	90,000	103,833	(13,833)
Supplies, materials and other	125,569	123,064	2,505
Employee benefits	134,458	133,810	648
	<u>500,655</u>	<u>519,137</u>	<u>(18,482)</u>
TOTAL PUPIL TRANSPORTATION SERVICES	<u>500,655</u>	<u>519,137</u>	<u>(18,482)</u>
Expenditures for Technology Services:			
Salaries	59,218	59,218	-
Purchased services	30,000	26,824	3,176
Supplies, materials and other	4,375	13,163	(8,788)
Employee benefits	39,376	39,117	259
	<u>132,969</u>	<u>138,322</u>	<u>(5,353)</u>
TOTAL TECHNOLOGY SERVICES	<u>132,969</u>	<u>138,322</u>	<u>(5,353)</u>
Expenditures for Athletic Activities:			
Salaries	63,067	60,123	2,944
Purchased services	24,266	24,247	19
Supplies, materials and other	-	40,331	(40,331)
Employee benefits	27,567	28,082	(515)
	<u>114,900</u>	<u>152,783</u>	<u>(37,883)</u>
TOTAL ATHLETIC ACTIVITIES	<u>114,900</u>	<u>152,783</u>	<u>(37,883)</u>

TAHQUAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenditures for Community Activities:			
Salaries	2,035	1,125	910
Supplies, materials and other	3,810	2,128	1,682
Employee benefits	<u>773</u>	<u>398</u>	<u>375</u>
TOTAL COMMUNITY ACTIVITIES	<u>6,618</u>	<u>3,651</u>	<u>2,967</u>
TOTAL EXPENDITURES	\$ <u>6,621,884</u>	\$ <u>6,670,066</u>	\$ <u>(48,182)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(21,506)	(45,526)	(24,020)
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(6,506)	(30,526)	(24,020)
FUND BALANCE, JULY 1	<u>40,501</u>	<u>40,501</u>	<u>-</u>
FUND BALANCE, JUNE 30	\$ <u><u>33,995</u></u>	\$ <u><u>9,975</u></u>	\$ <u><u>(24,020)</u></u>

TAHQAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - DETAIL SCHEDULE
FOOD SERVICE FUND

For the year ended June 30, 2014

REVENUES

Local Sources:

Food and milk sales	\$ 122,395
Interest	215

State Sources:

State aid - school lunch	14,868
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Federal Sources:

Federal aid - school lunch	209,745
U.S.D.A. donated commodities	<u>26,598</u>

TOTAL REVENUES	<u>373,821</u>
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EXPENDITURES

Supporting Services:

Salaries	118,771
Employee benefits	60,716
Purchased services	10,864
Supplies, materials and other	<u>185,563</u>

TOTAL EXPENDITURES	<u>375,914</u>
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EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(2,093)
---------------------------------------------	---------

OTHER FINANCING SOURCES (USES)

Transfers out	<u>(15,000)</u>
---------------	-----------------

NET CHANGE IN FUND BALANCE	(17,093)
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FUND BALANCE, JULY 1	<u>31,988</u>
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FUND BALANCE, JUNE 30	<u>\$ 14,895</u>
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TAHQUAMENON AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - DETAIL SCHEDULE
PUBLIC LIBRARY FUND

For the year ended June 30, 2014

REVENUES

Local Sources:

Property Taxes	\$	96,266
Penal fines		45,434
Interest		480
Donations, grants and miscellaneous		<u>11,793</u>

TOTAL REVENUES 153,973

EXPENDITURES

Salaries		37,297
Purchased services		70,897
Supplies, materials, books and other		<u>35,506</u>

TOTAL EXPENDITURES 143,700

NET CHANGE IN FUND BALANCE 10,273

FUND BALANCE, JULY 1 106,901

FUND BALANCE, JUNE 30 \$ 117,174

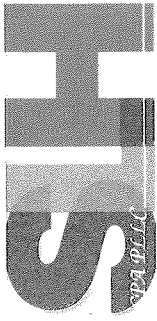
TAHQUAMENON AREA SCHOOLS
Newberry, Michigan

AUDIT REPORT ON FEDERAL PROGRAMS

June 30, 2014

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October 27, 2014

INDEPENDENT AUDITOR'S 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
Tahquamenon Area Schools
Newberry, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tahquamenon Area Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Tahquamenon Area School's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

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

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

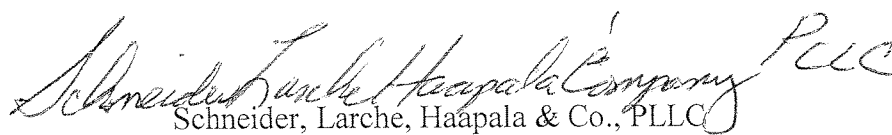
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

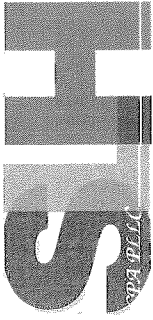
Compliance and Other Matters

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

Purpose of this Report

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


Schneider, Larche, Haapala & Co., PLLC



*Schneider, Larche,
Haapala & Co., PLLC*

**CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS**

David P. Pechawer, C.P.A., P.C.

Denise M. Boyle, C.P.A., P.C.

Bruce D. Dewar, C.P.A.

Karen L. Meiers, C.P.A., P.C.

October 27, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON THE INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133,
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Education
Tahquamenon Area Schools
Newberry, Michigan

Report on Compliance For Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Tahquamenon 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, 2014.

Report on Internal Control Over Compliance

The management of Tahquamenon 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 Tahquamenon Area School's 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, 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 Tahquamenon Area School's 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 control deficiencies, in internal control over compliance, such that there is a reasonable possibility that noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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 Tahquamenon Area Schools as of and for the year ended June 30, 2014, and have issued our report thereon dated October 27, 2014, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 taken as a whole.

Schneider Zank Haasda Company, PLLC
Certified Public Accountants

TAHQUAMENON AREA SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

Federal CFDA Number	Project Number	Approved Award/ Grant Amount	Accrued (Deferred) Revenue July 1, 2013	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2014
U.S. Department of Education							
Direct Program;							
84.060A	S060A122472	7,700 \$	7,700 \$	7,700 \$	- \$	- \$	-
84.060A	S060A132472	21,264	-	21,264	21,264	21,264	-
TOTAL DIRECT PROGRAMS							
Passed Through State Department of Education:							
84.010	131530-1213	294,397	16,015	16,015	-	-	-
84.010	141530-1314	257,694	-	187,687	221,625	221,625	33,938
PROGRAM TOTAL							
84.367	140520-1314	140,855	-	105,003	135,208	135,208	30,205
PROGRAM TOTAL							
TOTAL STATE PASS THROUGH							
Passed Through Intermediate School District:							
84.027	100450-1213	99,638	43,530	43,530	-	-	-
84.027	100450-1314	97,425	-	40,207	97,425	97,425	57,218
PROGRAM TOTAL							
84.173A	100460-1314	5,392	-	5,392	5,392	5,392	-
TOTAL INTERMEDIATE PASS THROUGH							
TOTAL U.S. DEPARTMENT OF EDUCATION							

TAHQAMENON AREA SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

Federal CFDA Number	Project Number	Approved Award/ Grant Amount	Accrued (Deferred) Revenue July 1, 2013	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2014
<u>U.S. Department of Agriculture</u>							
Passed Through State Department of Education:							
10.553	131970	46,837	7,516	7,516	-	-	-
10.555	131960	143,603	21,589	21,589	-	-	-
10.553	141970	50,757	-	50,757	50,757	50,757	-
10.555	141960	158,988	-	158,988	158,988	158,988	-
10.555	48040	26,598	-	26,598	26,598	26,598	-
CHILD NUTRITION CLUSTER TOTAL							
			29,105	265,448	236,343	236,343	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE							
			29,105	265,448	236,343	236,343	-
<u>U.S. Department of Health and Human Service</u>							
93.778	48040	1,790	-	1,789	1,789	1,789	-
Passed Through Intermediate School District: Medicaid Outreach							
			-	1,789	1,789	1,789	-
			\$ 96,350	\$ 694,035	\$ 719,046	\$ 719,046	\$ 121,361
TOTAL FEDERAL AWARDS							

TAHQAMENON AREA SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

- NOTE 1 -** Current year revenue recognized and expenditures reported in the Schedule of Expenditures of Federal Awards are presented on the modified accrual basis of accounting. This is consistent with the basis of accounting on which the financial statements are prepared.
- NOTE 2 -** The dollar threshold used to distinguish between Type A and Type B programs is \$300,000. The School District does not qualify as a low-risk auditee.
- NOTE 3 -** Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing and reconciling the schedule of expenditures of federal rewards.
- NOTE 4 -** Federal revenues and expenditures reported in the School District's basic financial statements agree with recognized revenues and expenditures per the Schedule of Expenditures of Federal Awards.

TAHQUAMENON AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2014

Summary of Auditor's Results

- An unqualified opinion was issued on the School District's financial statements.
- No material weaknesses or significant deficiencies in internal control relating to the audit of the financial statements were noted.
- No instances of noncompliance were noted during the audit that were material to the School District's financial statements.
- No material weaknesses or significant deficiencies in internal control relating to the audit of the major federal award programs were noted.
- An unqualified opinion was issued on the School District's compliance with the requirements that could have a direct and material effect on its major federal award programs.
- The audit did not disclose any findings or questioned costs that are required to be reported herein.
- The major programs at Tahquamenon Area Schools during the year ended June 30, 2014 were as follows:

Basic Program Improvements Title I Part A; CFDA No. 84.010
Children Nutrition Cluster; CFDA No. 10.553, 10.555

- The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The School District does not qualify as a low-risk auditee.

Findings Related to the Financial Statements Required to be Reported Under "Government Auditing Standards"

None

Findings and Questioned Costs for Federal Awards

None

TAHQUAMENON AREA SCHOOLS

CORRECTIVE ACTION PLAN

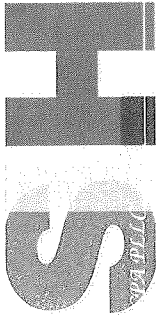
For the year ended June 30, 2014

No corrective action plan is required for the year ended June 30, 2014 since there were no findings or questioned costs (see page 9).

TAHQUAMENON AREA SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2014

There were no findings, questioned costs, or material weaknesses noted during the audit for the year ended June 30, 2013. Accordingly, no follow-up was required during the current year audit.



*Schneider, Larche,
Haapala & Co., PLLC*

CERTIFIED PUBLIC ACCOUNTANTS
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Karen L. Meiers, C.P.A., P.C.

October 27, 2014

To the Board of Education
Tahquamenon Area Schools
Newberry, MI

COMMUNICATIONS TO GOVERNING BOARD

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tahquamenon Area Schools as of and for the year ended June 30, 2014. Professional standards require that we communicate certain information that is presented below.

Auditor's Responsibility

Required communication about our responsibility under generally accepted auditing standards and the scope and timing of our audit procedures are communicated in our engagement letter dated August 1, 2014.

Accounting Policies and Disclosures

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tahquamenon Area Schools are described in the financial statements. No significant new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2014. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper year.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experiences 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 significant estimate used in preparing the financial statements is the determination of the District's liability for future payment of retirement incentives to current employees.



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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2014.

Management Consultations with Other Independent Accountants

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

Required and Other Information in Documents Containing Audited Financial Statements

With respect to both the required and other 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.

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 School District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the Board of Education and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

Schneider Trachte Hagopka Company PLLC
Certified Public Accountants