

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name TAWAS AREA SCHOOLS	County IOSCO
Fiscal Year End 06/30/07	Opinion Date 10/05/07	Date Audit Report Submitted to State 11/15/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

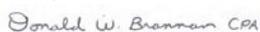
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

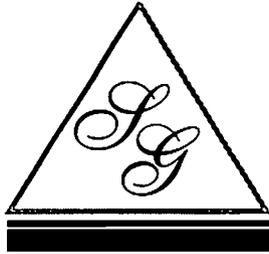
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SINGLE AUDIT	
Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.		Telephone Number 989-362-4491	
Street Address 325 NEWMAN STREET, PO BOX 592		City EAST TAWAS	State Zip MI 48730
Authorizing CPA Signature 	Printed Name DONALD W. BRANNAN	License Number 1101021039	

Digitally signed by Stephenson, Gracik and Co., P.C.  
DN: cn=Stephenson, Gracik and Co., P.C., o=18  
Date: 2007.10.20 15:14:46 -0500



*Stephenson Gracik & Co., P.C.*  
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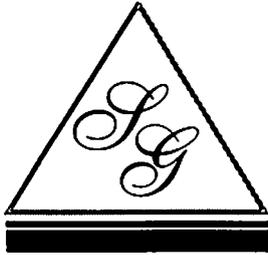
Herman A. Bertuleit, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2007

**AUDITORS' REPORT**

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

Certified Public Accountants & Consultants

October 17, 2007

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Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
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Independent Auditors' Report

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2007, on our consideration of Tawas Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tawas Area Schools' basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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# Tawas Area Schools

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



As management of the Tawas Area Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

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

## FINANCIAL HIGHLIGHTS

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

The District continues to realize relative stability in all funds, as well as in all governmental activities for the 2006/2007 school year. Goals based on financial activities continued to be realized by adopting a number of cost containment strategies such as cutting supplies, eliminating extra trips, limiting conference expenses, and monitoring expenditures very closely. Revenue projections remain unreliable due to Michigan's ongoing difficulty with generating accurate revenue forecasts. The legislature's failure to address structural deficits in its approach to funding K-12 districts, in combination with the state's continued high unemployment rate, does not promote much confidence for the 2007/2008 school year. The District has benefited from the state not cutting the foundation allowance. We continue to face escalating costs in the areas of energy, insurance, retirement and labor. Our ability to maintain an adequate fund balance will be challenging.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,812,767 (net assets). Of this amount, \$1,302,282 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$761,747. This represents increases in ongoing revenues which exceeded increases in ongoing expenditures.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,072,285, an increase of \$433,863 in comparison with the prior year. Virtually this entire amount is available for spending at the District's discretion (unreserved fund balance).

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletic Fund) was \$2,072,285 or 16% of the total expenditures of these operating funds.

## USING THIS ANNUAL REPORT

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2007

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2007

Governmental Funds (Continued)

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

Other Information

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

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

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

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The School District's net assets were \$7,812,767 at June 30, 2007. Of this amount, \$1,302,282 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the School District's governmental activities.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2007

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 1  
NET ASSETS  
 Governmental  
 Activities

	June 30, 2007	June 30, 2006
Current Assets	\$ 3,014,443	\$ 2,520,034
Noncurrent Assets:		
Bond Issuance Costs - Net	95,342	9,996,756
Capital Assets - Net	9,817,075	107,515
Total Assets	12,926,860	12,624,305
Current Liabilities	962,083	903,687
Noncurrent Liabilities	4,152,010	4,669,598
Total Liabilities	5,114,093	5,573,285
 <u>Net Assets</u>		
Invested in Capital Assets – Net of Related Debt	5,907,492	5,667,196
Restricted	602,993	549,035
Unrestricted	1,302,282	834,789
Total Net Assets	\$ 7,812,767	\$ 7,051,020

The \$1,302,282 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$1,302,282 left.

TABLE 2  
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2007	Year Ended June 30, 2006
Revenue:		
Program Revenue:		
Charges for Services	\$ 470,779	\$ 439,402
Operating Grants and Contributions	7,435,581	7,207,036
Capital Grants and Contributions	0	5,313
General Purpose Revenue:		
Current Property Taxes	5,037,634	4,718,068
Investment Earnings	121,490	86,389
Miscellaneous	13,144	11,575
Gain on Sale of Capital Assets	3,602	5,562
Total Revenue	13,082,230	12,473,345

TAWAS AREA SCHOOLS  
losco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2007

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2  
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2007	Year Ended June 30, 2006
Functions/Program Expenses:		
Instruction	\$ 6,940,549	\$ 7,220,779
Support Services	3,906,594	3,333,814
Community Services	2,695	2,548
Food Services	490,193	476,471
Athletics	292,477	231,033
Interest on Long-Term Debt	139,900	168,580
Amortization of Deferred Bond Costs and Bond Premiums (Net)	12,173	0
Unallocated Depreciation	535,902	522,574
Total Functions/Program Expenses	12,320,483	11,955,799
Change in Net Assets	761,747	517,546
Beginning Net Assets	7,051,020	6,533,474
Ending Net Assets	\$ 7,812,767	\$ 7,051,020

Governmental activities increased the District's net assets by \$761,747.

As reported in our Statement of Activities the cost of all of our governmental activities this year was \$12,320,483. However, the amount that our taxpayers ultimately financed for these activities through the School District was only \$5,037,634 because some of the cost was paid by those who benefited from the programs (\$470,779), by other governments and organizations who subsidized certain programs with grants and contributions (\$7,435,581), and by miscellaneous sources (\$138,236).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The budgeted funds are the General Fund, the School Lunch Fund and the Athletics Fund.

During the year ended June 30, 2007, the District amended the budgets of these governmental funds a couple of times, none significantly.

General Fund

The general fund actual revenue was \$11,647,335. The amount is above the original budget estimates of \$11,432,806 and above the final amended budget of \$11,640,342. The variance between the actual revenues, the original budget and the final budget was the result of increased revenues from various sources.

The actual expenditures of the general fund were \$11,073,625, which is below the original budget estimates of \$11,317,453 and above the final amended budget of \$11,072,622.

The General Fund had total revenues of \$11,647,335 and total expenditures of \$11,073,625 with an ending fund balance of \$1,469,292.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2007

TOTAL REVENUES

The total revenues of the School District were \$13,082,230. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$7,906,360 or 60% of total revenues of \$13,082,230.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$12,648,366. The governmental funds had a net gain in fund balance of \$433,863. The ending fund balance for all governmental funds was \$2,072,285 which represents 16% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**

At the end of fiscal year 2007, the District had \$18,466,412 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, \$8,649,337 in depreciation has been taken over the years. We currently have a net book value of \$9,817,075. Total additions for the year were \$356,221.

**Long-Term Debt**

At June 30, 2007, the District had \$3,985,000 in bonds outstanding which represent general obligation bonds of the District.

State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Notes to Financial Statements, Note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2007-2008 funding is uncertain. These factors were considered in preparing the Tawas Area School's budgets for the 2007-2008 fiscal year.

REQUESTS FOR INFORMATION

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

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 1,802,212
Receivables:	
Taxes	2,709
Accounts	18,295
State of Michigan (Note 3)	1,093,782
Inventory: (Note 1)	
Supplies	2,528
Building Trades Lots	10,793
Prepaid Expenses	84,124
Noncurrent Assets:	
Bond Issuance Costs - Net (Note 1)	95,342
Capital Assets - Net (Note 4)	<u>9,817,075</u>
 Total Assets	 <u>12,926,860</u>
 <u>Liabilities</u>	
Accounts Payable	270,375
Interest Payable	19,925
Payroll Deductions and Withholdings	141,969
Salaries Payable	529,814
Long-Term Liabilities (Note 6)	
Due within one year	547,395
Due in more than one year	<u>3,604,615</u>
 Total Liabilities	 <u>5,114,093</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	5,907,492
Restricted For:	
Athletics	8,905
Food Services	59,483
Debt Retirement	50,905
Capital Projects	483,700
Unrestricted	<u>1,302,282</u>
 Total Net Assets	 <u>\$ 7,812,767</u>

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

		Program Revenues		Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Government Type Activities
Instruction	\$ 6,940,549	\$ 36,046	\$ 4,855,139	\$ (2,049,364)
Support Services	3,906,594	84,019	2,284,846	(1,537,729)
Community Services	2,695	40,179	0	37,484
Food Services	490,193	206,810	295,596	12,213
Athletics	292,477	103,725	0	(188,752)
Interest on Long-Term Debt	139,900	0	0	(139,900)
Amortization of Deferred Bond Costs and Bond Premiums (Net)	12,173	0	0	(12,173)
Unallocated Depreciation	<u>535,902</u>	<u>0</u>	<u>0</u>	<u>(535,902)</u>
<b>Total</b>	<b><u>\$ 12,320,483</u></b>	<b><u>\$ 470,779</u></b>	<b><u>\$ 7,435,581</u></b>	<b><u>(4,414,123)</u></b>
 General Purpose Revenue:				
Current Property Taxes				5,037,634
Investment Earnings				121,490
Miscellaneous				13,144
Gain (Loss) on Sale of Capital Assets				<u>3,602</u>
Total General Purpose Revenue				<u>5,175,870</u>
 Change in net assets				 761,747
Net assets - beginning				<u>7,051,020</u>
Net assets - ending				<u>\$ 7,812,767</u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

<u>ASSETS</u>	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents (Note 2)	\$ 1,199,069	\$ 483,700	\$ 119,443	\$ 1,802,212
Receivables:				
Taxes	2,709	0	0	2,709
Accounts	18,295	0	0	18,295
State of Michigan (Note 3)	1,093,782	0	0	1,093,782
Inventory: (Note 1)				
Supplies	0	0	2,528	2,528
Building Trades Lots	10,793	0	0	10,793
Prepaid Expenses	<u>84,124</u>	<u>0</u>	<u>0</u>	<u>84,124</u>
Total Assets	<u>\$ 2,408,772</u>	<u>\$ 483,700</u>	<u>\$ 121,971</u>	<u>\$ 3,014,443</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 267,697	\$ 0	\$ 2,678	\$ 270,375
Payroll Deductions and Withholdings	141,969	0	0	141,969
Salaries Payable	<u>529,814</u>	<u>0</u>	<u>0</u>	<u>529,814</u>
Total Liabilities	<u>939,480</u>	<u>0</u>	<u>2,678</u>	<u>942,158</u>
 <u>Fund Equity</u>				
Fund Balances:				
Reserved:				
Food Service	0	0	59,483	59,483
Debt Service	0	0	50,905	50,905
Capital Projects	0	483,700	0	483,700
Unreserved, Reported In:				
General Fund	1,469,292	0	0	1,469,292
Special Revenue Funds	<u>0</u>	<u>0</u>	<u>8,905</u>	<u>8,905</u>
Total Fund Equity	<u>1,469,292</u>	<u>483,700</u>	<u>119,293</u>	<u>2,072,285</u>
Total Liabilities and Fund Equity	<u>\$ 2,408,772</u>	<u>\$ 483,700</u>	<u>\$ 121,971</u>	<u>\$ 3,014,443</u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2007

Total governmental fund balances		\$	2,072,285
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:			
Capital Asset Cost		\$	18,466,412
Capital Asset Accumulated Depreciation			<u>(8,649,337)</u>
			9,817,075
Accrued interest on long-term liabilities			(19,925)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (net of unamortized discount)			(3,889,658)
Compensated Absences Payable			(50,710)
Early Retirement Incentives			<u>(116,300)</u>
Total long-term liabilities			<u>(4,056,668)</u>
Total net assets - governmental activities		\$	<u>7,812,767</u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local Sources:				
Current Property Taxes	\$ 4,252,504	\$ 222,781	\$ 562,349	\$ 5,037,634
Tuition	40,179	0	0	40,179
Transportation Fees	10,368	0	0	10,368
Food Sales	0	0	188,534	188,534
Gate Receipts	0	0	75,569	75,569
Interest on Investments	81,459	22,193	17,838	121,490
Rents	9,076	0	0	9,076
Other Local Sources	86,316	0	46,432	132,748
State Sources	6,647,564	0	33,550	6,681,114
Federal Sources	455,129	0	262,046	717,175
Interdistrict Sources	64,740	0	0	64,740
Total revenue	<u>11,647,335</u>	<u>244,974</u>	<u>1,186,318</u>	<u>13,078,627</u>
<u>Expenditures</u>				
Current:				
Instruction	7,012,048	0	0	7,012,048
Support Services	3,922,682	0	0	3,922,682
Community Services	2,695	0	0	2,695
Food Services	0	0	490,193	490,193
Athletics	0	0	292,477	292,477
Capital Outlay	136,200	220,021	0	356,221
Debt Service:				
Principal Retirement	0	0	430,000	430,000
Interest and Fees on Long-Term Debt	0	0	142,050	142,050
Total expenditures	<u>11,073,625</u>	<u>220,021</u>	<u>1,354,720</u>	<u>12,648,366</u>
Excess of revenue over (under) expenditures	<u>573,710</u>	<u>24,953</u>	<u>(168,402)</u>	<u>430,261</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	3,602	0	0	3,602
Operating Transfers In	25,180	0	220,317	245,497
Operating Transfers Out	(220,317)	0	(25,180)	(245,497)
Total other financing sources (uses)	<u>(191,535)</u>	<u>0</u>	<u>195,137</u>	<u>3,602</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>382,175</u>	<u>24,953</u>	<u>26,735</u>	<u>433,863</u>
Fund balances - beginning of year	<u>1,087,117</u>	<u>458,747</u>	<u>92,558</u>	<u>1,638,422</u>
Fund balances - end of year	<u>\$ 1,469,292</u>	<u>\$ 483,700</u>	<u>\$ 119,293</u>	<u>\$ 2,072,285</u>

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

TAWAS AREA SCHOOLS  
Losco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

Total net change in fund balances - governmental funds	\$	433,863
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation expense	\$ (535,902)	
Capital outlays reported in the governmental funds	<u>356,221</u>	(179,681)
Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.		
Bonds Payable		430,000
Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Amortization of Deferred Bond Costs and Bond Premiums (Net)		(12,173)
Net change in accrued interest payable:		
Accrued interest on long-term liabilities June 30, 2006	22,075	
Accrued interest on long-term liabilities June 30, 2007	<u>(19,925)</u>	2,150
Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2006	3,174	
Accrued compensated absences June 30, 2007	<u>(50,710)</u>	(47,536)
Net change in early retirement incentives:		
Early retirement incentives June 30, 2006	251,424	
Early retirement incentives June 30, 2007	<u>(116,300)</u>	<u>135,124</u>
Change in net assets of governmental activities	\$	<u><u>761,747</u></u>

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

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2007

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ <u>139,872</u>
<u>LIABILITIES</u>	
Due to Student Groups	\$ <u>139,872</u>

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Tawas Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Tawas Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

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

Governmental Funds

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

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

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

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

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

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

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

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

Fund Financial Statements:

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

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

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions:

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

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

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

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

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

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2007, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

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

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Prepaid Items

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

H. Inventory – Supplies

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

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

I. Inventory - Building Trades Lots

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

J. Bond Issuance Costs

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

K. Capital Assets

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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

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

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

L. Interfund Balances

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

M. Accrued Liabilities and Long-Term Obligations

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

N. Compensated Absences

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

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences (Continued)

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2007.

O. Net Assets

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

P. Property Taxes

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

Q. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2006.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2006 - August, 2007. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

R. State Categorical Revenue

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Interfund Activity

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2007.

U. Economic Dependency

The School District received approximately 55% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

V. Use of Estimates

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

W. Budgetary Policies and Data

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

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

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

TAWAS AREA SCHOOLS  
losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Reclassifications

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents	\$ 1,802,212	\$ 139,872	\$ 1,942,084

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking Accounts)	\$ 382,320
Investments in Pooled Funds	1,558,964
Petty Cash and Cash on Hand	800
Total	\$ 1,942,084

As of June 30, 2007, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ 1,558,964	Daily

Interest Rate Risk

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

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2007, the School District's investment in the Cadre Consulting managed Michigan Liquid Asset Fund investment pool was rated AAAM by Standard & Poor's.

TAWAS AREA SCHOOLS  
losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$363,168 of the School District's bank balance of \$463,168 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

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

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

Foreign Currency Risk

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

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (from the State of Michigan) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	\$ <u>1,093,782</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>150,525</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>150,525</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	13,456,052	0	0	13,456,052
Site Improvements	1,630,877	193,777	0	1,824,654
Furniture, Fixtures and Equipment	1,185,139	26,244	0	1,211,383
Vehicles and Buses	1,370,225	136,200	(59,173)	1,447,252
Education Media and Textbooks	<u>376,546</u>	<u>0</u>	<u>0</u>	<u>376,546</u>
Subtotal	<u>18,018,839</u>	<u>356,221</u>	<u>(59,173)</u>	<u>18,315,887</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,957,461)	(263,497)	0	(5,220,958)
Site Improvements	(1,031,892)	(67,366)	0	(1,099,258)
Furniture, Fixtures and Equipment	(716,074)	(120,635)	0	(836,709)
Vehicles and Buses	(1,090,635)	(84,404)	59,173	(1,115,866)
Education Media and Textbooks	<u>(376,546)</u>	<u>0</u>	<u>0</u>	<u>(376,546)</u>
Subtotal	<u>(8,172,608)</u>	<u>(535,902)</u>	<u>59,173</u>	<u>(8,649,337)</u>
Capital Assets Being Depreciated	<u>9,846,231</u>	<u>(179,681)</u>	<u>0</u>	<u>9,666,550</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,996,756</u>	<u>\$ (179,681)</u>	<u>\$ 0</u>	<u>\$ 9,817,075</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - SHORT-TERM DEBT

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

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of</u> <u>Contract</u>	<u>Principal</u> <u>Due</u>	<u>Interest</u>	<u>Total</u> <u>Obligation</u>
The bonds dated March 27, 2003 which bear interest from 2% to 3.6% are due serially each May 1 through 2015	2003	\$ <u>3,985,000</u>	\$ <u>621,620</u>	\$ <u>4,606,620</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

A. Bonds Payable (Continued)

The annual principal and interest requirements for long-term debt for the years after June 30, 2007 are as follows:

	Government Activities		
	Principal	Interest	Total
2008	\$ 445,000	\$ 128,900	\$ 573,900
2009	455,000	115,550	570,550
2010	475,000	101,900	576,900
2011	490,000	87,650	577,650
2012	500,000	72,460	572,460
2013 - 2015	1,620,000	115,160	1,735,160
Total	\$ 3,985,000	\$ 621,620	\$ 4,606,620

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for Tawas Area Schools was \$50,710 at June 30, 2007, of which \$3,095 was the estimated current portion.

C. Early Retirement Incentive Payable

The School District has two retirement incentive programs, Option A was offered to all teachers actively employed by the School District and not on leave, who have thirty (30) or more years of retirement credit, or are in the process of purchasing or willing to purchase service credit to get them to (30) years of credit by June 30, 2007. Option B was offered to all teachers who are actively employed with the School District and not on leave, who are fifty-five (55) years of age and meet the requirements of the State of Michigan Public School Retirement Law and are able to receive State of Michigan retirement benefits at a reduced amount. The amount of retirement incentive liability for the School District at June 30, 2007 was \$116,300, of which \$99,300 was the estimated current portion.

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2007:

<u>Governmental Activities</u>	<u>Balance July 1, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2007</u>	<u>Amount Due in One Year</u>
Bonds Payable	\$ 4,415,000	\$ 0	\$ (430,000)	\$ 3,985,000	\$ 445,000
Compensated Absences	3,174	47,536 *	0	50,710	3,095
Early Retirement Incentives	<u>251,424</u>	<u>0</u>	<u>(135,124) *</u>	<u>116,300</u>	<u>99,300</u>
Total Long-Term Liabilities	<u>\$ 4,669,598</u>	<u>\$ 47,536</u>	<u>\$ (565,124)</u>	<u>\$ 4,152,010</u>	<u>\$ 547,395</u>

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

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$141,800.

NOTE 7 - OPERATING TRANSFERS

During the year ended June 30, 2007, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 25,180	\$ 220,317
Non-major Governmental Funds	<u>220,317</u>	<u>25,180</u>
	<u>\$ 245,497</u>	<u>\$ 245,497</u>

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 25,180	Athletic Fund	\$ 25,180
Athletic Fund	<u>220,317</u>	General Fund	<u>220,317</u>
Total	<u>\$ 245,497</u>	Total	<u>\$ 245,497</u>

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

TAWAS AREA SCHOOLS  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

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

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

During the year ended June 30, 2007, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Instruction	\$ 7,009,547	\$ 7,012,048	\$ 2,501

NOTE 9 - RETIREMENT PLANS

Defined Benefit Plan

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

Funding Policy

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

During the plan fiscal year 2006, employer contributions were 16.34% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2006, the contribution rate increased to 17.74% of covered compensation. The contribution requirements of plan members and Tawas Area Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2007, 2006 and 2005 were \$1,146,916, \$1,036,032 and \$964,435, respectively, equal to the required contributions for each year.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 9 - RETIREMENT PLANS (CONTINUED)

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

Deferred Compensation Plans

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

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$84,630 for the year ended June 30, 2007.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$344,977 for the year ended June 30, 2007. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 10 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$0 as of June 30, 2007.

NOTE 11 - SINKING FUND

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - GOVERNMENTAL REGULATION

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

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2007, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 15 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the School District's financial position and operations.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
Losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 4,384,609	\$ 4,474,113	\$ 4,479,902	\$ 5,789
State Sources	6,472,531	6,646,359	6,647,564	1,205
Federal Sources	476,352	455,130	455,129	(1)
Interdistrict Sources	99,314	64,740	64,740	0
Total revenue	11,432,806	11,640,342	11,647,335	6,993
<u>Expenditures</u>				
Current:				
Instruction	7,587,043	7,009,547	7,012,048	(2,501)
Support Services	3,727,562	3,924,175	3,922,682	1,493
Community Services	2,848	2,700	2,695	5
Capital Outlay	0	136,200	136,200	0
Total expenditures	11,317,453	11,072,622	11,073,625	(1,003)
Excess of revenue over expenditures	115,353	567,720	573,710	5,990
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	3,602	3,602	0
Operating Transfers In	0	25,050	25,180	130
Operating Transfers Out	(169,631)	(220,320)	(220,317)	3
Total other financing sources (uses)	(169,631)	(191,668)	(191,535)	133
Excess of revenue and other sources over (under) expenditures and other uses	(54,278)	376,052	382,175	6,123
Fund balances - beginning of year	1,087,117	1,087,117	1,087,117	0
Fund balances - end of year	\$ 1,032,839	\$ 1,463,169	\$ 1,469,292	\$ 6,123

OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2007

	<u>Lunch Fund</u>	<u>Athletic Fund</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 59,633	\$ 8,905	\$ 50,905	\$ 119,443
Inventory:				
Supplies	<u>2,528</u>	<u>0</u>	<u>0</u>	<u>2,528</u>
Total Assets	<u>\$ 62,161</u>	<u>\$ 8,905</u>	<u>\$ 50,905</u>	<u>\$ 121,971</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	<u>\$ 2,678</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,678</u>
<u>Fund Equity</u>				
Fund Balances:				
Reserved:				
Food Service	59,483	0	0	59,483
Debt Service	0	0	50,905	50,905
Unreserved, Reported In:				
Special Revenue Funds	<u>0</u>	<u>8,905</u>	<u>0</u>	<u>8,905</u>
Total Fund Equity	<u>59,483</u>	<u>8,905</u>	<u>50,905</u>	<u>119,293</u>
Total Liabilities and Fund Equity	<u>\$ 62,161</u>	<u>\$ 8,905</u>	<u>\$ 50,905</u>	<u>\$ 121,971</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	<u>Lunch Fund</u>	<u>Athletic Fund</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
<u>Revenue</u>				
Local Sources:				
Current Property Taxes	\$ 0	\$ 0	\$ 562,349	\$ 562,349
Food Sales	188,534	0	0	188,534
Gate Receipts	0	75,569	0	75,569
Interest on Investments	2,229	250	15,359	17,838
Other Local Sources	18,276	28,156	0	46,432
State Sources	33,550	0	0	33,550
Federal Sources	262,046	0	0	262,046
Total revenue	504,635	103,975	577,708	1,186,318
<u>Expenditures</u>				
Current:				
Food Services	490,193	0	0	490,193
Athletics	0	292,477	0	292,477
Debt Service:				
Principal Retirement	0	0	430,000	430,000
Interest and Fees on Long-Term Debt	0	0	142,050	142,050
Total expenditures	490,193	292,477	572,050	1,354,720
Excess of revenue over (under) expenditures	14,442	(188,502)	5,658	(168,402)
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	220,317	0	220,317
Operating Transfers Out	0	(25,180)	0	(25,180)
Total other financing sources (uses)	0	195,137	0	195,137
Excess of revenue and other sources over (under) expenditures and other uses	14,442	6,635	5,658	26,735
Fund balances - beginning of year	45,041	2,270	45,247	92,558
Fund balances - end of year	\$ 59,483	\$ 8,905	\$ 50,905	\$ 119,293

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF REVENUE COMPARED TO BUDGET  
For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	2007 Amended Budget	2007 Actual	2006 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 4,249,300	\$ 4,252,504	\$ 3,952,883
Tuition	41,333	40,179	57,463
Transportation Fees	9,600	10,368	9,530
Interest on Investments	78,000	81,459	56,961
Rents	9,076	9,076	9,076
Medicaid Fee for Service	36,900	36,045	39,791
Miscellaneous Local Sources	49,904	50,271	42,381
	<u>4,474,113</u>	<u>4,479,902</u>	<u>4,168,085</u>
<u>State Sources</u>			
State Aid Foundation Allowance	5,970,084	5,971,310	5,836,705
Special Education	364,876	234,841	376,913
At Risk	249,521	249,500	222,641
Math/Science	18,978	18,978	0
Preschool Program/Early Childhood Education	42,900	172,935	52,800
	<u>6,646,359</u>	<u>6,647,564</u>	<u>6,489,059</u>
<u>Federal Sources</u>			
ECIA Title I	272,889	272,889	281,056
ECIA Title II- Improving Teacher Quality	169,068	166,540	95,315
Title II Part D - Education Technology	0	2,528	0
Title V	298	298	601
Medicaid Outreach	271	270	8,304
Schools and Roads Grant Funds	8,604	8,604	6,251
Special Education	4,000	4,000	0
Homeland Security Grant	0	0	5,313
	<u>455,130</u>	<u>455,129</u>	<u>396,840</u>
<u>Interdistrict Sources</u>			
Pre-Primary Speech and Language	27,448	27,448	30,298
Vocational Education	37,292	37,292	28,526
	<u>64,740</u>	<u>64,740</u>	<u>58,824</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	3,602	3,602	8,282
Operating Transfers In	25,050	25,180	15,209
	<u>28,652</u>	<u>28,782</u>	<u>23,491</u>
Total Revenue and Other Financing Sources	<u>\$ 11,668,994</u>	<u>\$ 11,676,117</u>	<u>\$ 11,136,299</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	2007 Amended Budget	2007 Actual	2006 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,569,623	\$ 1,569,550	\$ 1,481,673
Employee Benefits	776,173	770,028	666,808
Purchased Services	42,910	43,455	38,857
Supplies, Materials and Other	45,554	43,450	58,871
	2,434,260	2,426,483	2,246,209
Junior High School			
Salaries	579,565	579,164	586,127
Employee Benefits	318,856	319,022	267,405
Purchased Services	15,969	15,389	14,285
Supplies, Materials and Other	5,513	5,297	22,127
	919,903	918,872	889,944
High School			
Salaries	1,119,789	1,119,105	1,168,834
Employee Benefits	550,637	550,991	533,121
Purchased Services	64,115	63,304	56,355
Supplies, Materials and Other	40,386	50,028	70,633
	1,774,927	1,783,428	1,828,943
Preschool			
Salaries	28,027	28,026	28,372
Employee Benefits	14,362	14,364	14,067
Supplies, Materials and Other	465	464	3,937
	42,854	42,854	46,376
Total Basic Programs	5,171,944	5,171,637	5,011,472
Added Needs:			
Special Education			
Salaries	635,579	633,029	689,383
Employee Benefits	342,995	342,639	347,885
Purchased Services	15,200	20,767	12,301
Supplies, Materials and Other	3,782	3,779	3,791
	997,556	1,000,214	1,053,360
Compensatory Education			
Salaries	298,612	298,608	241,024
Employee Benefits	139,097	139,117	107,915
Purchased Services	283	282	695
Supplies, Materials and Other	3,270	3,273	16,877
	441,262	441,280	366,511

TAWAS AREA SCHOOLS  
Losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Amended Budget	<u>2007</u> Actual	<u>2006</u> Actual
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 127,562	\$ 127,561	\$ 133,409
Employee Benefits	63,319	63,388	53,627
Purchased Services	187,000	186,736	237,271
Supplies, Materials and Other	<u>3,939</u>	<u>3,938</u>	<u>9,080</u>
	<u>381,820</u>	<u>381,623</u>	<u>433,387</u>
 Total Added Needs	 <u>1,820,638</u>	 <u>1,823,117</u>	 <u>1,853,258</u>
 Adult Education:			
Basic			
Salaries	943	1,203	1,651
Employee Benefits	6,347	5,807	396
Purchased Services	8,970	9,579	4,406
Supplies, Materials and Other	<u>705</u>	<u>705</u>	<u>705</u>
	<u>16,965</u>	<u>17,294</u>	<u>7,158</u>
 Total Instruction	 <u>7,009,547</u>	 <u>7,012,048</u>	 <u>6,871,888</u>
 <u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	183,567	183,035	193,037
Employee Benefits	83,033	82,959	87,481
Purchased Services	222	222	584
Supplies, Materials and Other	<u>1,102</u>	<u>1,102</u>	<u>156</u>
	<u>267,924</u>	<u>267,318</u>	<u>281,258</u>
 Health Services			
Purchased Services	<u>26,900</u>	<u>23,938</u>	<u>30,744</u>
 Psychological Services			
Purchased Services	45,000	42,030	45,752
Supplies, Materials and Other	<u>10</u>	<u>9</u>	<u>55</u>
	<u>45,010</u>	<u>42,039</u>	<u>45,807</u>
 Speech			
Salaries	87,855	87,735	65,396
Employee Benefits	42,716	42,734	26,728
Purchased Services	69	493	11,225
Supplies, Materials and Other	<u>1,130</u>	<u>1,130</u>	<u>2,212</u>
	<u>131,770</u>	<u>132,092</u>	<u>105,561</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007 Amended Budget</u>	<u>2007 Actual</u>	<u>2006 Actual</u>
<u>Support Services (Continued)</u>			
Pupil Services: (Continued)			
Social Work			
Salaries	\$ 9,310	\$ 9,308	\$ 12,675
Employee Benefits	3,488	3,483	7,354
Purchased Services	0	0	30
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>404</u>
	<u>12,798</u>	<u>12,791</u>	<u>20,463</u>
 Total Pupil Services	 <u>484,402</u>	 <u>478,178</u>	 <u>483,833</u>
 Instructional Staff:			
Instructional Improvement			
Purchased Services	<u>11,997</u>	<u>11,839</u>	<u>15,403</u>
	<u>11,997</u>	<u>11,839</u>	<u>15,403</u>
 Library Services			
Salaries	75,427	75,373	74,946
Employee Benefits	33,118	33,105	29,080
Supplies, Materials and Other	<u>9,781</u>	<u>12,114</u>	<u>13,201</u>
	<u>118,326</u>	<u>120,592</u>	<u>117,227</u>
 Director of Instruction			
Salaries	91,858	91,857	123,495
Employee Benefits	8,940	8,940	9,521
Purchased Services	850	1,058	125
Supplies, Materials and Other	<u>1,200</u>	<u>1,131</u>	<u>0</u>
	<u>102,848</u>	<u>102,986</u>	<u>133,141</u>
 Total Instructional Staff	 <u>233,171</u>	 <u>235,417</u>	 <u>265,771</u>
 General Administration:			
Board of Education			
Salaries	4,700	5,070	4,590
Purchased Services	<u>39,910</u>	<u>45,291</u>	<u>33,140</u>
	<u>44,610</u>	<u>50,361</u>	<u>37,730</u>
 Executive Administration			
Salaries	161,177	161,176	133,329
Employee Benefits	67,683	67,681	54,528
Purchased Services	15,654	15,803	14,560
Supplies, Materials and Other	<u>15,800</u>	<u>15,986</u>	<u>20,146</u>
	<u>260,314</u>	<u>260,646</u>	<u>222,563</u>
 Total General Administration	 <u>304,924</u>	 <u>311,007</u>	 <u>260,293</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

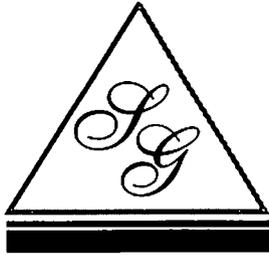
GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Amended Budget	<u>2007</u> Actual	<u>2006</u> Actual
<u>Support Services (Continued)</u>			
School Administration:			
Office of the Principal			
Salaries	\$ 415,486	\$ 411,842	\$ 480,200
Employee Benefits	266,185	265,275	284,443
Purchased Services	80,115	82,015	1,137
Supplies, Materials and Other	<u>26,892</u>	<u>26,721</u>	<u>25,085</u>
	<u>788,678</u>	<u>785,853</u>	<u>790,865</u>
Business:			
Fiscal Services			
Salaries	81,292	81,291	78,201
Employee Benefits	139,193	142,630	405,191
Purchased Services	76,650	76,649	75,974
Supplies, Materials and Other	<u>21,627</u>	<u>21,627</u>	<u>25,679</u>
	<u>318,762</u>	<u>322,197</u>	<u>585,045</u>
Operations and Maintenance:			
Salaries	332,718	326,584	326,700
Employee Benefits	174,617	173,027	76,295
Purchased Services	289,728	295,297	286,717
Supplies, Materials and Other	<u>80,462</u>	<u>76,329</u>	<u>71,500</u>
	<u>877,525</u>	<u>871,237</u>	<u>761,212</u>
Transportation:			
Salaries	331,505	331,148	321,503
Employee Benefits	113,515	113,449	73,972
Purchased Services	76,596	78,651	64,075
Supplies, Materials and Other	<u>159,572</u>	<u>156,020</u>	<u>153,388</u>
	<u>681,188</u>	<u>679,268</u>	<u>612,938</u>
Central Services:			
Central Services			
Purchased Services	<u>0</u>	<u>4,000</u>	<u>0</u>
Technology			
Salaries	122,513	122,510	98,486
Employee Benefits	66,436	66,446	23,233
Purchased Services	42,107	42,105	43,153
Supplies, Materials and Other	<u>4,469</u>	<u>4,464</u>	<u>10,881</u>
	<u>235,525</u>	<u>235,525</u>	<u>175,753</u>
Total Central Services	<u>235,525</u>	<u>239,525</u>	<u>175,753</u>
Total Support Services	<u>3,924,175</u>	<u>3,922,682</u>	<u>3,935,710</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007 Amended Budget</u>	<u>2007 Actual</u>	<u>2006 Actual</u>
<u>Community Services</u>			
Crossing Guard			
Salaries	\$ 2,156	\$ 2,153	\$ 2,059
Employee Benefits	<u>544</u>	<u>542</u>	<u>489</u>
	<u>2,700</u>	<u>2,695</u>	<u>2,548</u>
 <u>Capital Outlay</u>			
Instruction	0	0	3,656
Support Services	<u>136,200</u>	<u>136,200</u>	<u>196,032</u>
Total Capital Outlay	<u>136,200</u>	<u>136,200</u>	<u>199,688</u>
 <u>Operating Transfers Out</u>			
Athletic Fund	<u>220,320</u>	<u>220,317</u>	<u>160,158</u>
Total Expenditures and Transfers	<u>\$ 11,292,942</u>	<u>\$ 11,293,942</u>	<u>\$ 11,169,992</u>



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

Certified Public Accountants & Consultants

October 17, 2007

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

Herman A. Bertuleit, CPA

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

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Tawas Area Schools' basic financial statements and have issued our report thereon dated October 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tawas Area Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Tawas Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Tawas Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Tawas Area Schools' internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

Tawas Area Schools prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the Board  
Tawas Area Schools  
October 17, 2007

Tawas Area Schools have individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the School District is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Tawas Area Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described below.

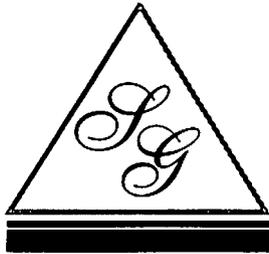
#### Child Nutrition Cost Allocations

A food service management company was employed for the 2006-2007 school year. The company was not retained for the 2007-2008 school year, and was not available after June 30, 2007. A food service director was hired effective July 1, 2007, and assisted in the preparation of the year-end report for the year ending June 30, 2007 based on the records available from the previous food service management company. Food service employees did not track their time by service during the year ending June 30, 2007. We recommend, in accordance with OMB Circular A-87 and State of Michigan guidelines, Food Service employee's time be accumulated by service and used as a basis of allocating costs by service on the year-end report to the Michigan Department of Education.

We noted certain matters that we have reported to management of Tawas Area Schools in a separate letter dated October 17, 2007.

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

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



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

Certified Public Accountants & Consultants

October 17, 2007

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

Herman A. Bertuleit, CPA

To the Board of Education  
Tawas Area Schools  
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools for the year ended June 30, 2007, and have issued our report thereon dated October 17, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated March 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Tawas Area Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Tawas Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Tawas Area Schools' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Tawas Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Tawas Area Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Tawas Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Tawas Area Schools' financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Financial Statement Preparation

Tawas Area Schools prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Tawas Area Schools have individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the School District is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

Child Nutrition Cost Allocations

A food service management company was employed for the 2006-2007 school year. The company was not retained for the 2007-2008 school year, and was not available after June 30, 2007. A food service director was hired effective July 1, 2007, and assisted in the preparation of the year-end report for the year ending June 30, 2007 based on the records available from the previous food service management company. Food service employees did not track their time by service during the year ending June 30, 2007. We recommend, in accordance with OMB Circular A-87 and State of Michigan guidelines, Food Service employee's time be accumulated by service and used as a basis of allocating costs by service on the year-end report to the Michigan Department of Education.

Child Nutrition Program Eligibility Verifications

In one case, a student was determined to be eligible for free lunches. The parent did not respond to the verification letters, and the student was properly changed to full pay status. Nine days later, the parent submitted a new application with different income, and the child was changed back to free status. However, the income was never independently verified. In the second case, two people in the household showed income on the application, but only one person's income was verified to an independent source. Two children in the household received reduced lunch benefits for the school year. We recommend, in accordance with United States Department of Agriculture and State of Michigan compliance guidelines, all income on applications selected for verification be substantiated with an independent source.

Student Activity Funds

During student activity fund testing, it was noted that four checks written from the Junior High Student Activity fund and one check written from the High School Activity fund were returned by the bank because they did not have the required two signatures on the checks. We recommend that two signatures are obtained on the checks before they are mailed.

Budget Control

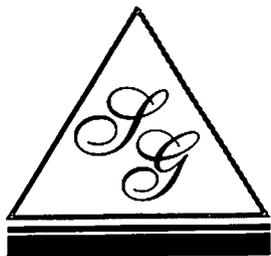
We noted that the School District's General Fund included expenditures in one function that exceeded appropriated amounts. We recommend that the Board continue to amend the budgets for all funds periodically as needed and take into consideration recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of Tawas Area Schools.

Members of the Board  
Tawas Area Schools  
October 17, 2007  
Page 4

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

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



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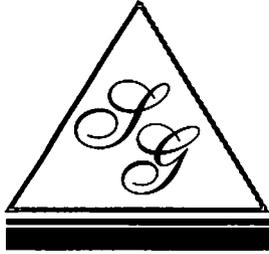
Herman A. Bertuleit, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2007

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

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Tawas Area Schools' basic financial statements and have issued our report thereon dated October 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tawas Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tawas Area Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Tawas Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Tawas Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Tawas Area Schools' internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Tawas Area Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described as item 07-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

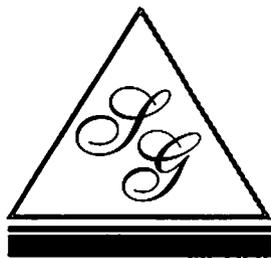
As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described as item 07-2 in the accompanying schedule of findings and questioned costs.

We noted certain matters that we have reported to management of Tawas Area Schools in a separate letter dated October 17, 2007.

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

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

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



*Stephenson Gracik & Co., P.C.*  
October 17, 2007  
Certified Public Accountants & Consultants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

Compliance

We have audited the compliance of Tawas Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Tawas Area Schools' management. Our responsibility is to express an opinion on Tawas Area Schools' compliance based on our audit.

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

As described in items 07-2 and 07-3 in the accompanying schedule of findings and questions costs, Tawas Area Schools did not comply with requirements regarding cost principles and eligibility that are applicable to its Child Nutrition Program. Compliance with such requirements is necessary, in our opinion, for Tawas Area Schools to comply with the requirements applicable to that program.

In our opinion, except for the noncompliances described in the preceding paragraph, Tawas Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Tawas Area Schools' internal control over compliance with 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tawas Area Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3 to be significant deficiencies.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-2 and 07-3 to be material weaknesses.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated October 17, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Tawas Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2007

Findings - Financial Statements Audit

06-1

Internal Controls

Cash Receipts

The results of our testing revealed the cash and checks breakdown was not consistently listed on each individual receipt. Tawas Area Schools implemented a new system of electronic cash receipts late in the year ending June 30, 2005. After this system was implemented, revised internal controls were established for the new automated procedures. The activity was not consistently entered under the cash and checks detail input fields.

Current Status:

Procedures were reviewed with Tawas Area Schools' personnel, and similar transactions were tested in the year ending June 30, 2007. We noted the cash and checks breakdown was listed on receipts selected for audit testing in the year ending June 30, 2007.

Findings and Questioned Costs - Major Federal Award Programs Audit

06-2

Cash Management

Title I Cash Management

The results of our testing of Title I cash draws in the year ending June 30, 2006 found five of ten draws were not spent within 30 days. Tawas Area Schools maintained a separate checking account for the Title I program. When the checking account balance was reaching zero, grant funds were requested. However, not all grant expenditures were paid out of the Title I checking account, and therefore the account did not reflect the actual cash balance of the grant. The cash disbursements of the program were not reviewed before cash draws were requested.

Current Status:

Tawas Area Schools closed the separate Title I checking account. In the fiscal year ending June 30, 2007, we found all cash draws were requested based on the actual cash disbursements of the program, and were spent within three days of the draw receipt.

TAWAS AREA SCHOOLS  
Losco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Tawas Area Schools.
- (2) One material weakness relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Others Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) One instance of noncompliance material to the financial statements of Tawas Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.
- (4) Two significant deficiencies are disclosed regarding internal control over major federal award program compliance in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses a qualified opinion.
- (6) The auditors' report disclosed two findings relative to the major federal award programs of Tawas Area Schools.
- (7) The programs tested as major programs included: Title I, CFDA #84.010, and the School Nutrition Cluster, CFDA #10.553 and #10.555.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000
- (9) Tawas Area Schools did not qualify as a low-risk auditee.

Findings - Financial Statements Audit

07-1 Financial Statement Preparation

Tawas Area Schools prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Tawas Area Schools have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the School District is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

**Criteria:** Accounting principles require personnel of Tawas Area Schools have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Condition:** Tawas Area Schools' personnel prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

Findings - Financial Statements Audit (Continued)

07-1 Financial Statement Preparation (Continued)

entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

**Questioned Costs:** None.

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

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

Findings and Questioned Costs - Major Federal Award Programs Audit

07-2 Cost Principles - Child Nutrition Cost Allocations

**Criteria:** Office of Management and Budget Circular A-87 and state guidelines require costs be allocated on an equitable basis.

**Condition:** The percentages used to allocate food service costs to lunch, breakfast, a la carte and other services were based on an estimate of hours by service rather than actual hours accumulated by service.

**Questioned Costs:** None.

**Context:** A food service management company was employed for the 2006-2007 school year. The company was not retained for the 2007-2008 school year, and was not available after June 30, 2007. A food service director was hired effective July 1, 2007, and assisted in the preparation of the year-end report for the year ending June 30, 2007, based on the records available from the previous food service management company. Food service employees did not track their time by service during the year ending June 30, 2007.

**Effect:** Cost allocation percentages were based on an estimate and were not substantiated. These percentages were used to calculate and report the average cost of breakfast and lunch services by meal on the year-end report submitted to the Michigan Department of Education.

**Cause:** The food service management company did not gather support for the cost allocations, and was not available to assist in preparing the year-end report. School employees also did not gather support for the cost allocations.

**Recommendation:** We recommend, in accordance with OMB Circular A-87 and State of Michigan guidelines, Food Service employee's time be accumulated by service and used as a basis of allocating costs by service on the year-end report to the Michigan Department of Education.

**Views of responsible officials and planned corrective action:** Tawas Area Schools plans to track hours by service each pay period. The hours will be accumulated for the year, and used as a basis to determine costs by service for the year-end report.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

Findings and Questioned Costs - Major Federal Award Programs Audit (Continued)

07-3 Child Nutrition Program Eligibility

**Criteria:** State and federal compliance supplement s require school personnel verify a sample of free and reduced lunch applications with independent income sources.

**Condition:** We reviewed four applications that were verified. We found in two of the four files tested, independent third party verification was not properly obtained.

**Questioned Costs:** Approximate maximum questioned costs are less than \$1,000.

**Context:** In one case, a student was determined to be eligible for free lunches. The parent did not respond to the verification letters, and the student was properly changed to full pay status. Nine days later, the parent submitted a new application with different income, and the child was changed back to free status. However, the income was never independently verified. In the second case, two people in the household showed income on the application, but only one person's income was verified to an independent source. Two children in the household received reduced lunch benefits for the school year.

**Effect:** The School District cannot substantiate the free lunch status for one student and reduced lunch status for two students throughout the school year based on their verification of income sources.

**Cause:** The School District personnel responsible for the verification of student lunch eligibility did not follow state procedures, or did not document support for income verification within the files.

**Recommendation:** We recommend, in accordance with United States Department of Agriculture and State of Michigan compliance guidelines, all income on applications selected for verification be substantiated with an independent source.

**Views of responsible officials and planned corrective action:** The District feels the food service management company did not properly oversee the verification process. A School Lunch Supervisor was hired effective July 1, 2007, and will ensure the verification process is properly followed in the 2007/2008 school year.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2006</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2007</u>
<u>U.S. Department of Agriculture</u>								
Child Nutrition Cluster:								
Passed through the Michigan Department of Education:								
School Breakfast Program								
2005-2006	061970	10.553	\$ 5,622	\$ 0	\$ 0	\$ 5,622	5,622	\$ 0
2006-2007	071970		55,658	0	0	55,658	55,658	0
			<u>61,280</u>	<u>0</u>	<u>0</u>	<u>61,280</u>	<u>61,280</u>	<u>0</u>
National School Lunch Program								
Section 4 - All Lunches								
2005-2006	061950	10.555	3,050	0	0	3,050	3,050	0
2006-2007	071950		25,192	0	0	25,192	25,192	0
Section 11 - Free and Reduced								
2005-2006	061960		16,901	0	0	16,901	16,901	0
2006-2007	071960		136,854	0	0	136,854	136,854	0
			<u>181,997</u>	<u>0</u>	<u>0</u>	<u>181,997</u>	<u>181,997</u>	<u>0</u>
Total Child Nutrition Cluster			<u>243,277</u>	<u>0</u>	<u>0</u>	<u>243,277</u>	<u>243,277</u>	<u>0</u>
Passed through the Michigan Department of Education:								
Food Distribution								
Entitlement Commodities	55030	10.550	18,593	0	0	18,593	18,593	0
Bonus Commodities	55030		176	0	0	176	176	0
			<u>18,769</u>	<u>0</u>	<u>0</u>	<u>18,769</u>	<u>18,769</u>	<u>0</u>
Passed through Iosco County:								
Schools and Roads Grants Funds								
		10.665	<u>7,739</u>	<u>0</u>	<u>0</u>	<u>7,739</u>	<u>7,739</u>	<u>0</u>
Total U.S. Department of Agriculture			<u>269,785</u>	<u>0</u>	<u>0</u>	<u>269,785</u>	<u>269,785</u>	<u>0</u>

TAWAS AREA SCHOOLS  
losco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2006</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2007</u>
<u>U.S. Department of Education</u>								
Passed through the Michigan Department of Education:								
Title I - Grants to Local Educational Agencies								
2005-2006	061530 0506	84.010	\$ 275,641	\$ 249,000	\$ 19,000	\$ 0	\$ 19,000	\$ 0
2006-2007	061530 0607		26,641	0	0	26,641	26,641	0
2006-2007	071530 0607		249,592	0	0	246,248	246,248	0
			<u>551,874</u>	<u>249,000</u>	<u>19,000</u>	<u>272,889</u>	<u>291,889</u>	<u>0</u>
Passed through the Michigan Department of Education:								
Special Education Grant:								
Service Provider Self Review	070440 0607	84.027	4,000	0	0	4,000	4,000	0
Passed through the Michigan Department of Education:								
Title V LEA Allocation								
2006-2007	070250 0607	84.298	298	0	0	298	298	0
Passed through the Michigan Department of Education:								
Title II Part D Education Technology:								
Technology Literacy Challenge Grants								
2006-2007	074290 0607	84.318	2,528	0	0	2,528	2,528	0
Passed through the Michigan Department of Education:								
Title II Part A:								
Improving Teacher Quality								
2006-2007	060520 0607	84.367	79,236	0	0	79,236	79,236	0
2006-2007	070520 0607		87,304	0	0	87,304	87,304	0
			<u>166,540</u>	<u>0</u>	<u>0</u>	<u>166,540</u>	<u>166,540</u>	<u>0</u>
Total U.S. Department of Education			<u>725,240</u>	<u>249,000</u>	<u>19,000</u>	<u>446,255</u>	<u>465,255</u>	<u>0</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2006</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2007</u>
<u>U.S. Department of Health and Human Services</u>								
Passed through Iosco Regional Educational Service Agency:								
Medical Assistance Program Title XIX:		93.778						
Transportation Claims			\$ 270	\$ 0	\$ 0	\$ 270	\$ 270	\$ 0
Total Federal Awards			\$ 995,295	\$ 249,000	\$ 19,000	\$ 716,310	\$ 735,310	\$ 0

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

Notes:

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

General Fund	\$ 455,129
Special Revenue Fund:	
Lunch Fund	262,046
Federal revenue from oil and gas royalties, included in the General Fund total above, not subject to Single Audit reporting requirements	<u>(865)</u>
	<u>\$ 716,310</u>