

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2012



“Learning Today - Succeeding Tomorrow”

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS

JUNE 30, 2012

ADMINISTRATION

Superintendent Jan Quarless
Principal William Rivest

BOARD OF EDUCATION

President Dallas Bond
Vice President Rick Nye
Treasurer Donna Engman
Secretary Julie Dunstan
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of and for the year then ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012 on our consideration of Dollar Bay-Tamarack City Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

October 31, 2012

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

This section of Dollar Bay-Tamarack City Area Schools’ annual financial report presents our discussion and analysis of the District’s financial performance during the year ended June 30, 2012. Please read it in conjunction with the District’s financial statements, which immediately follows this section.

Financial Highlights

The District showed an increase in the unreserved general fund balance for the fiscal year. The following considerations attributed to this small increase:

- Additional funds from the MPSERS off set and Best Practices
- Education Jobs Fund
- Continued savings realized in operation and maintenance.

During these difficult economic times the school district ending fund balance represents almost 12% of expenditures. The state recommended fund equity is 17% of expenditures.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management’s Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District’s financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District’s finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year’s activities. The statements are shown using a full accrual basis.

The District’s net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District’s net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Overview of the Financial Statements (Continued)

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

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

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Fund and School Food Service.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund meets this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt, and School Food Service Funds.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Summary of Net Assets

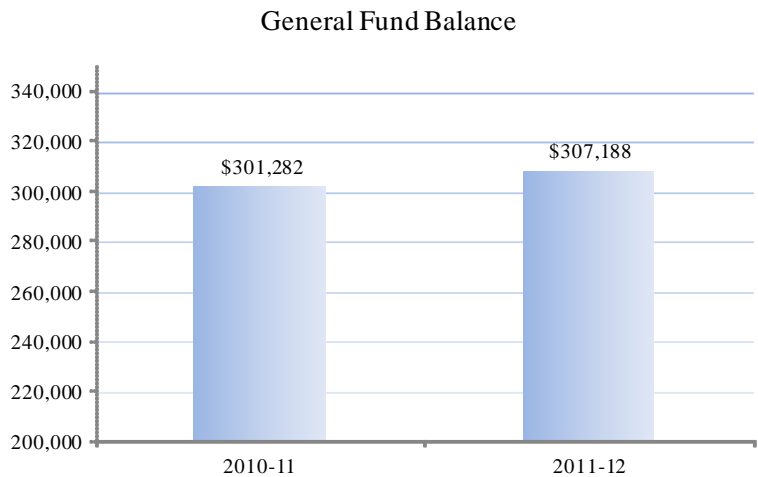
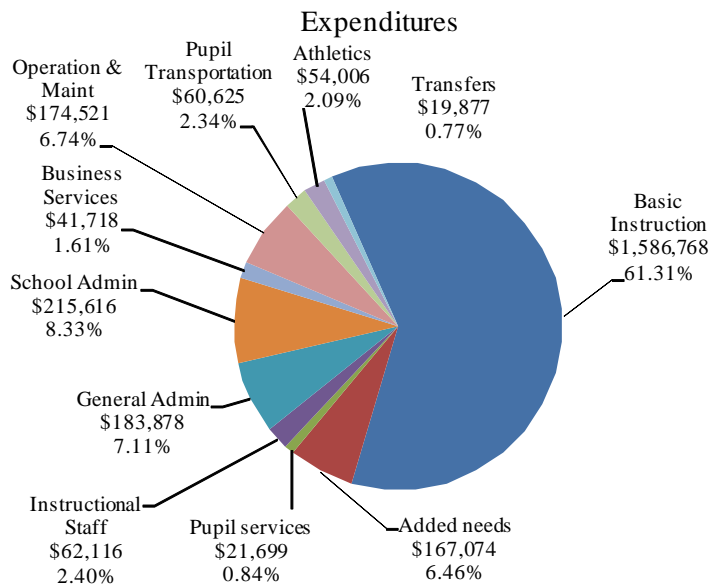
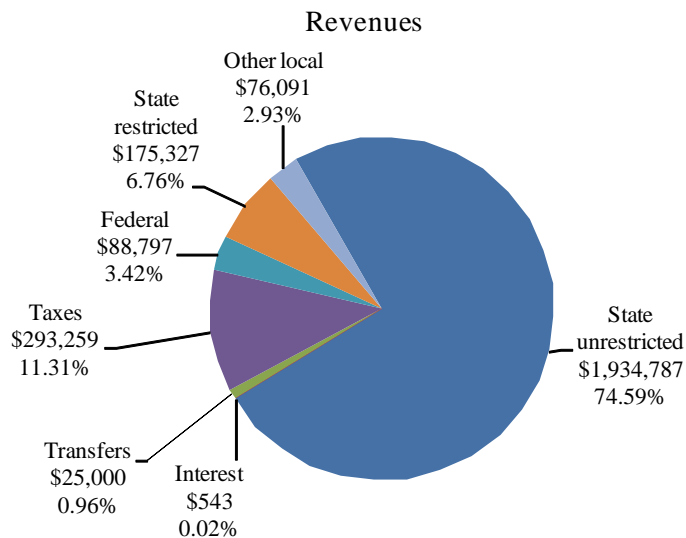
	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 913,635	\$ 830,190
Restricted cash	65,466	103,272
Capital assets - Net of accumulated depreciation	<u>2,735,904</u>	<u>2,825,380</u>
Total Assets	<u>\$ 3,715,005</u>	<u>\$ 3,758,842</u>
Liabilities		
Current liabilities	\$ 694,866	\$ 625,734
Long-term liabilities	<u>1,856,010</u>	<u>1,959,735</u>
Total Liabilities	<u>2,550,876</u>	<u>2,585,469</u>
Net Assets		
Invested in capital assets - net of related debt	778,273	757,062
Restricted:		
Debt service	86,067	116,086
Food service	13,611	13,678
Unrestricted	<u>286,178</u>	<u>286,547</u>
Total net assets	<u>1,164,129</u>	<u>1,173,373</u>
Total Liabilities and Net Assets	<u>\$ 3,715,005</u>	<u>\$ 3,758,842</u>

Results of Operations in Governmental Activities

	<u>2012</u>	<u>2011</u>
Program Revenue:		
Charges for services	\$ 25,998	\$ 37,295
Grants and contributions	369,207	420,205
General Revenue:		
Property taxes	452,085	453,250
State foundation allowance	1,934,787	1,996,436
Other	<u>86,437</u>	<u>172,668</u>
Total Revenue	<u>2,868,514</u>	<u>3,079,854</u>
Functions/Program Expenses		
Instruction	1,839,086	1,917,590
Support services	770,680	785,081
School food services	134,488	135,258
Athletics	54,006	59,650
Interest on long-term debt	79,223	83,347
Other debt	<u>275</u>	<u>225</u>
Total Expenses	<u>2,877,758</u>	<u>2,981,151</u>
Change in Net Assets	(9,244)	98,703
Net Assets - Beginning	<u>1,173,373</u>	<u>1,074,670</u>
Net Assets - Ending	<u>\$ 1,164,129</u>	<u>\$ 1,173,373</u>

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The following charts highlight the District's General Fund activities:



**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 2,593,804	\$ 2,795,617	\$ (201,813)
Expenditures/Transfers	\$ 2,587,898	\$ 2,791,084	\$ (203,186)
Fund Balance	\$ 307,188	\$ 301,282	\$ 5,906
Debt Service Fund:			
Revenues/Transfers	\$ 160,166	\$ 177,030	\$ (16,864)
Expenditures/Transfers	\$ 190,185	\$ 194,260	\$ (4,075)
Fund Balance	\$ 86,067	\$ 116,086	\$ (30,019)
School Food Service Fund:			
Revenues/Transfers	\$ 134,421	\$ 145,490	\$ (11,069)
Expenditures/Transfers	\$ 134,488	\$ 135,258	\$ (770)
Fund Balance	\$ 13,611	\$ 13,678	\$ (67)

General Fund - Decrease of \$72,037 in federal grant revenue for Title I, Title II and REAP. Prior year federal grants in the amount of \$60,852 were not received for ARRA Stabilization, ARRA Special Education, and Impact Aid. Tuition and transfers from other school districts were the largest decrease of local revenue in the amount of \$105,993. State revenue increased from prior year by \$27,526. Expenditures basically followed the decrease in revenue in instruction and supporting services.

Debt Service Fund - The millage rate was reduced to 4.0 from 3.55 mills in the prior year since the debt revenue needs have reduced.

School Food Service Fund - Revenues decreased in local, state, and federal sources from prior year because of the decline in students.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year in July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2012, the original budget was adopted on June 22, 2011. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget during the fiscal year.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

General Fund Budgetary Highlights (Continued)

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 2,394,800	\$ 2,557,041	\$ 2,568,804	\$ 11,763	0.5%
Expenditures					
Instruction	\$ 1,763,966	\$ 1,835,292	\$ 1,753,842	\$ 81,450	4.6%
Supporting services	839,886	798,762	814,179	(15,417)	-1.9%
Total expenditures	\$ 2,603,852	\$ 2,634,054	\$ 2,568,021	\$ 66,033	2.6%
Other financing sources (uses)	\$ (14)	\$ 24,285	\$ 5,123	\$ (19,162)	-374%

There were minimal variances between the final budget to actual. Other financing sources budget amounts were adjusted for transfers from other districts.

For the original budget, the State aid calculation was done in June of 2012 and is based purely on estimated student enrollment. In addition, grant allocations and/or donations are not always known at the time the original budget is approved resulting in lower budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets: Total capital assets decreased by \$89,476. There were no additions of assets for the fiscal year. Disposals consisted of school buses in the amount of \$139,082.

Additional information on capital assets can be found on page 24.

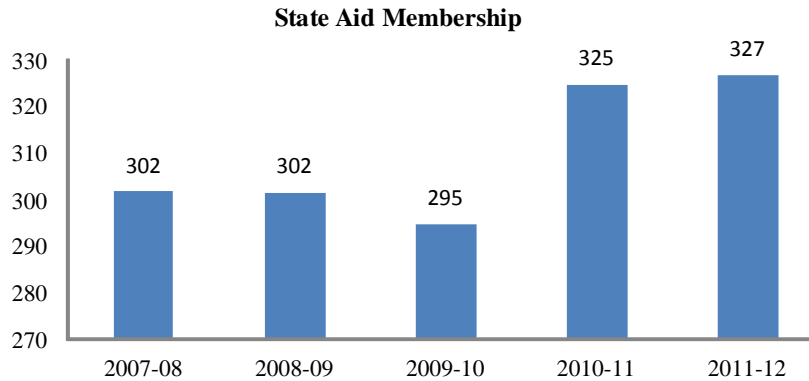
Long-term Debt: At the end of the current fiscal year, the District's total long term debt was \$1,945,000. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$110,000 during the fiscal year.

Additional information on the District's long-term debt can be found on pages 25 through 27 of this report.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

The graph depicts an increase of 2 students enrolled from the previous year, using the State Aid Membership Count.



Our elected officials and administration consider many factors when setting the District’s fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provided a foundation amount (amount per student) of \$6,846 for the 2011-12 school year.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District’s finances. If you have questions about this report or need additional information, contact the Business Office, Dollar Bay-Tamarack City Area Schools.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 13,328
Investments	450,948
Taxes receivable	49,709
Accounts receivable	9,671
Due from other governmental units	389,979
TOTAL CURRENT ASSETS	<u>913,635</u>
NON-CURRENT ASSETS:	
Restricted cash	65,466
Capital assets	3,799,559
Less: Accumulated depreciation	<u>(1,063,655)</u>
Net Capital Assets	<u>2,735,904</u>
TOTAL NON-CURRENT ASSETS	<u>2,801,370</u>
TOTAL ASSETS	<u>\$ 3,715,005</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 2,517
Accrued expenses	236,133
Accrued interest	12,631
Due to other governmental units	83,585
Short-term note payable	250,000
Bonds payable within one year	110,000
TOTAL CURRENT LIABILITIES	<u>694,866</u>
NON-CURRENT LIABILITIES:	
Bonds payable, due in more than one year	1,835,000
Accrued retirement and vacation	21,010
TOTAL NON-CURRENT LIABILITIES	<u>1,856,010</u>
TOTAL LIABILITIES	<u>2,550,876</u>
NET ASSETS:	
Invested in capital assets, net of related debt	778,273
Restricted:	
Debt service	86,067
Food service	13,611
Unrestricted	286,178
TOTAL NET ASSETS	<u>1,164,129</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,715,005</u>

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

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF ACTIVITIES
June 30, 2012

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 1,839,086	\$ 989	\$ 264,124	\$ (1,573,973)
Support services	770,680	-	-	(770,680)
School service	134,488	19,795	105,083	(9,610)
Athletics	54,006	5,214	-	(48,792)
Interest on long-term debt	79,223	-	-	(79,223)
Other debt service	275	-	-	(275)
Total Governmental Activities	\$ 2,877,758	\$ 25,998	\$ 369,207	(2,482,553)
General Revenues:				
Property taxes, levied for general operations				293,259
Property taxes, levied for debt service				158,826
State school aid - unrestricted				1,934,787
Interest and investment earnings				1,207
Other				72,298
Transfers				12,932
Total general revenues and transfers				2,473,309
Change in Net Assets				(9,244)
Net Assets - Beginning				1,173,373
Net Assets - Ending				\$ 1,164,129

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

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2012

	<u>General</u>	<u>Other Non-major Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 13,328	\$ 65,466	\$ 78,794
Investments	450,948	-	450,948
Taxes receivable	39,561	10,148	49,709
Accounts receivable	5,333	4,338	9,671
Due from other governmental units	389,192	787	389,979
Due from other funds	-	20,587	20,587
TOTAL ASSETS	\$ 898,362	\$ 101,326	\$ 999,688
LIABILITIES:			
Accounts payable	\$ 1,445	\$ 1,072	\$ 2,517
Accrued expenses	235,557	576	236,133
Due to other governmental units	83,585	-	83,585
Due to other funds	20,587	-	20,587
Short-term notes payable	250,000	-	250,000
TOTAL LIABILITIES	591,174	1,648	592,822
FUND BALANCES:			
Restricted:			
Debt service	-	86,067	86,067
Food service	-	13,611	13,611
Unassigned	307,188	-	307,188
TOTAL FUND BALANCES	307,188	99,678	406,866
TOTAL LIABILITIES AND FUND BALANCES	\$ 898,362	\$ 101,326	

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 in the funds.	2,735,904
Long-term liabilities, including bonds payable that are not due and payable in the current period and therefore are not reported in the funds.	(1,966,010)
Accrued interest is not included as a liability in governmental funds.	<u>(12,631)</u>
Net assets of governmental activities	<u>\$ 1,164,129</u>

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

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2012

	<u>General</u>	<u>Other Non-major Governmental</u>	<u>Totals</u>
	<u>Fund</u>	<u>Fund</u>	
REVENUES			
Local sources	\$ 369,893	\$ 181,695	\$ 551,588
State sources	2,110,114	3,689	2,113,803
Federal sources	88,797	101,394	190,191
TOTAL REVENUES	<u>2,568,804</u>	<u>286,778</u>	<u>2,855,582</u>
 EXPENDITURES			
Instruction	1,753,842	-	1,753,842
Supporting services	760,173	-	760,173
Debt service	-	190,185	190,185
School food service	-	134,488	134,488
Athletics	54,006	-	54,006
TOTAL EXPENDITURES	<u>2,568,021</u>	<u>324,673</u>	<u>2,892,694</u>
 Excess (deficiency) of revenue over expenditures	<u>783</u>	<u>(37,895)</u>	<u>(37,112)</u>
 OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)	(7,809)	7,809	-
Incoming transfers - other schools	25,000	-	25,000
Transfers to other districts	(12,068)	-	(12,068)
Total other financing sources (uses)	<u>5,123</u>	<u>7,809</u>	<u>12,932</u>
 NET CHANGE IN FUND BALANCE	5,906	(30,086)	(24,180)
 FUND BALANCES - BEGINNING OF YEAR	<u>301,282</u>	<u>129,764</u>	
 FUND BALANCES - END OF YEAR	<u>\$ 307,188</u>	<u>\$ 99,678</u>	

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

Governmental funds do not record depreciation but does report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(89,476)
Bond proceed provide current financial resources to governmental funds, but issuing debt increases Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(5,588)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>110,000</u>
 Change in net assets of governmental activities	 <u>\$ (9,244)</u>

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

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

ASSETS:	
Cash and investments	\$ <u>23,341</u>
LIABILITIES:	
Due to student groups	\$ <u>23,341</u>

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

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Dollar Bay-Tamarack City Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Dollar Bay-Tamarack City Area Schools (the “District”) is governed by the Dollar Bay-Tamarack City Area Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District’s net assets resulting from the current year’s activities.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

The District reports the following major governmental funds:

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

Other non-major funds:

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service activities.

Fiduciary Funds - The Trust and Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

Fiduciary funds are not included in the government-wide statements.

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

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation 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 districts and the local county treasurer. For the year ended June 30, 2012, the foundation allowance was based on pupil membership counts taken in February and September of 2011, 2010, and 2009 for a three year blended average.

The state portion of the foundation 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 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 and is funded through payments from October 2011 to August 2012. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

Foundation	\$ 6,846.00
Less Local Support:	
Assumed Local Revenue	308,489
Divided by General Education K-12 membership	<u>324.84</u>
Calculated Local Support	<u>(949.66)</u>
Foundation Grant Allowance Per Pupil	<u>\$ 5,896.34</u>

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Accounting Policies

Deposits - Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes - Property taxes levied by the District are collected by Osceola Township and Torch Lake Township and are periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2012, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	18.000
Debt service fund - Homestead and non-homestead	3.550

Receivables and Payables - Activity between funds are reported as “due to/from other funds.” All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Expenses - The liabilities for accrued expenditures consisted of salaries, employee benefits, unused vacation, accrued interest, and retirement incentives.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Balance - The District adopted the provisions of GASB Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is presented on the face of the balance sheet.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either a.) Not in spendable form, or b.) Legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, laws or regulations of other governments. *Committed fund balance*, if any, is reported from amounts that can be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned balance.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

Subsequent Events - Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE C - DEPOSITS AND INVESTMENTS

At year-end, the District’s cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 13,328	\$ -	\$ 13,328
Restricted cash	65,466	23,341	88,807
Total cash and cash equivalents	78,794	23,341	102,135
Investments	450,948	-	450,948
Total deposits and investments	\$ 529,742	\$ 23,341	\$ 553,083

As of June 30, 2012 the District had the following investments:

Investment Type	Fair Value	Rating
MILAF + MIMAX	\$ 450,948	AAAm

Investment and Deposit Risk

Interest Rate Risk – In accordance with its investment policy, the 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 District’s cash requirements. The District’s investments held at year end do not have maturity dates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2012 the District’s bank balance was 100% insured.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investment listed above, there is no custodial credit risk, as these investment are uncategorized as to credit risk.

Concentration of Credit Risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal Deposit Insurance Corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

NOTE D - CAPITAL ASSETS

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

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Land	\$ 1	\$ -	\$ -	\$ 1
Building and additions	3,566,840	-	-	3,566,840
Equipment and furniture	218,218	-	-	218,218
School buses	139,082	-	139,082	-
Vehicles other than buses	14,500	-	-	14,500
Subtotal	<u>3,938,640</u>	<u>\$ -</u>	<u>\$ 139,082</u>	<u>3,799,558</u>
Accumulated depreciation:				
Building and additions	866,602	75,090	-	941,692
Equipment and furniture	95,010	13,948	-	108,958
School buses	139,082	-	139,082	-
Vehicle other than buses	12,567	438	-	13,005
	<u>1,113,261</u>	<u>\$ 89,476</u>	<u>\$ 139,082</u>	<u>1,063,655</u>
Net capital assets being depreciated	<u>2,825,379</u>			<u>2,735,903</u>
Net capital assets	<u>\$ 2,825,380</u>			<u>\$ 2,735,904</u>

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

Governmental activities	
Instruction	\$ 85,243
Operations	3,631
Transportation	<u>602</u>
Total governmental activities	<u>\$ 89,476</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2012 are as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
Debt service	\$ 10,453	General	20,587
School service	10,134		
Total Receivable	<u>\$ 20,587</u>	Total Payable	<u>\$ 20,587</u>
<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
School service	<u>\$ 7,809</u>	General	<u>\$ 7,809</u>

NOTE F - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2012, for the District's individual major funds and non-major funds in the aggregate, are as follows:

Fund Financial Statements:	
Accounts payable	\$ 2,517
Accrued salaries and benefits	<u>236,133</u>
	<u>238,650</u>
District-wide Financial Statements:	
Accrued retirement and vacation	21,010
Accrued interest on long-term debt	<u>12,631</u>
Total accounts payable and accrued liabilities	<u>\$ 272,291</u>

NOTE G - LONG TERM DEBT

2005 Advance Refunding

On April 27, 2005 the Authority issued \$2,455,000 of general obligation unlimited tax refunding bonds to advance refund \$2,350,000 of outstanding 1997 Building and Site bonds. The bond issue matures as indicated below with interest at varying rates of 3.75% to 4.5% per annum. Interest payments started on November 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: Bonds of this issue maturing in the years 2011 through 2014, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2015 and thereafter, shall be subject to redemption prior to maturity, at the option of the District, in such order as the District may determine and by lot within any maturity, on the first day of any month on or after May 1, 2014, at par and accrued interest to the date fixed for redemption.

Mandatory Redemption: The Bonds maturing May 1, 2022, May 1, 2024 and May 1, 2027 are term bonds subject to mandatory redemption, in part, by lot. When term bonds are purchased by the District and delivered to the paying agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the term Bonds affected shall be reduced by the principal amount of the bonds so redeemed or purchased in the order determined by the District.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE G - LONG-TERM DEBT (Continued)

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2012-2013	\$ 37,892	\$ 37,892	\$ 110,000	\$ 185,784
2013-2014	35,693	35,693	110,000	181,386
2014-2015	33,492	33,492	110,000	176,984
2015-2016	31,293	31,293	115,000	177,586
2016-2017	28,992	28,992	115,000	172,984
2017-2018	26,692	26,692	120,000	173,384
2018-2019	24,263	24,263	120,000	168,526
2019-2020	21,802	21,802	120,000	163,604
2020-2021	19,312	19,312	125,000	163,624
2021-2022	16,625	16,625	125,000	158,250
2022-2023	13,938	13,938	125,000	152,876
2023-2024	11,187	11,187	125,000	147,374
2024-2025	8,438	8,438	125,000	141,876
2025-2026	5,625	5,625	125,000	136,250
2026-2027	2,813	2,813	125,000	130,626
	<u>\$ 318,057</u>	<u>\$ 318,057</u>	<u>\$ 1,795,000</u>	<u>\$ 2,431,114</u>

QZAB Installment Purchase Agreement

On March 4, 2011, the District issued \$150,000 of Qualified Zone Academy Bonds (QZAB) for the purpose of remodeling, refurbishing and re-equipping the school buildings.

The bond matures in 2020 and bears an interest rate of 0.00% per annum, with 2% interest on yearly set-aside fund payments. The Agreement is not subject to redemption prior to maturity. The District is required to set-aside installments beginning with the fiscal year 2010-11 and continuing until such time as the set-aside installments, together with interest accrued on such set-aside installments equals \$150,000 on the ninth anniversary of issuance. At fiscal year end the District had set aside \$29,731.

Activity in the general long-term obligations account group was as follows for the year ended June 30, 2012:

	Balance			Balance June 30, 2012	Current Portion
	June 30, 2011	Increase	Decrease		
2005 Refunding Bond	\$ 1,905,000	\$ -	\$ 110,000	\$ 1,795,000	\$ 110,000
QZAB 2010 School Facility	150,000	-	-	150,000	-
TOTAL	<u>\$ 2,055,000</u>	<u>\$-</u>	<u>\$ 110,000</u>	<u>\$ 1,945,000</u>	<u>\$ 110,000</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE G - LONG-TERM DEBT (Continued)

As of June 30, 2012, the aggregate maturities of long-term debt are as follows:

School Year	Interest	Principal	Total
2012-2013	\$ 75,784	\$ 110,000	\$ 185,784
2013-2014	71,386	110,000	181,386
2014-2015	66,984	110,000	176,984
2015-2016	62,586	115,000	177,586
2016-2017	57,984	115,000	172,984
2017-2018	53,384	120,000	173,384
2018-2023	191,880	765,000	956,880
2023-2027	56,126	500,000	556,126
TOTAL	<u>\$ 636,114</u>	<u>\$ 1,945,000</u>	<u>\$ 2,581,114</u>

NOTE H- NOTE PAYABLE

On August 22, 2011, the District entered into a note with the Michigan Municipal Bond Authority. Revenue Notes, Series 2011C-2, C-3 is for the amount of \$250,000. The interest rate on the Note shall not exceed .311% per annum. The note matures on August 20, 2012. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

The retirement system is a tiered plan. Employees participate in either the Basic Plan, the Member Investment Plan (MIP), or the Hybrid Plan.

Plan Description - The District contributes to the Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan's web-site: <http://www.michigan.gov/orsschools>.

Funding Policy - Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later 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. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Employees hired on or after July 1, 2010 are enrolled in a new pension plan, the Pension Plus Plan, with a blending of defined benefit and defined contribution components. Under this plan, employees would not be able to receive pension payments until age 60, and would be required to have worked at least ten years as a public school employee. The employee contributes \$510 annually, plus 7.3% of salary above \$15,000. Additionally, the employer matches member contributions at a rate of 50% of the employee's first 2% of salary contribution. The employee is able to contribute more than the 2% of salary, but employer contributions do not exceed 1% of total salary deposited.

The rates for the year ended June 30, 2012 were 20.66% of covered compensation through September 2012, and 24.46% for the remainder of the year for MIP members, and 23.23% Pension Plus Plan members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPERS for the years ended June 30, 2012, 2011, and 2010, were \$311,116, \$270,620, and \$202,935 respectively, equal to the required contributions for each year.

Other Post Employee Benefits - Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

The District is not responsible for the payment of retirement benefits or post-employment benefits which is the responsibility of the State of Michigan.

NOTE J - 403(b) RETIREMENT PLAN

In 2008-09 the District established a 403(b) plan, a qualified, tax sheltered annuity or custodial account plan for the exclusive benefit of eligible employees and their beneficiaries. The plan is self administered by the District with a plan year ending each December 31. Participants in the plan must be an employee receiving compensation for personal service in covered employment.

The plan is intended to be a qualified tax sheltered annuity or custodial account plan in which payments are taxable to the recipient only upon actual distribution of benefits under Section 72 and 403(b) of the Internal Revenue Code of 1986, as amended (the Code). The Employer is not required to make contributions. Accounts are established by the employee's investment provider for each type of contribution.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE K - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on MDE grant reports by the State of Michigan reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

Current payments per MDE grant reports	\$ 287,114
Less prior year receivable	(139,565)
Plus:	
Title I receivable	10,754
USDA Commodities	12,815
REAP	19,073
Total Federal Financial Assistance	<u>\$ 190,191</u>

The District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2012 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE L - ECONOMIC DEPENDENCY

The District received approximately 75% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

NOTE M - CONTINGENT LIABILITIES

Risk Pool - Dollar Bay-Tamarack City Area Schools 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 District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Dollar Bay-Tamarack City Area Schools joined together with other school districts currently operating a common risk management and insurance program. Dollar Bay-Tamarack City Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Dollar Bay-Tamarack City Area Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2012, which can be obtained through the District.

NOTE N - SUBSEQUENT EVENT

On September 18, 2012, the District secured a loan with Fox Marquette to purchase a 2007 Ford Econoline van for the amount of \$10,063. The loan carries an interest rate of 4.85%.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Local sources	\$ 355,280	\$ 384,436	\$ 369,893	\$ (14,543)
State sources	1,953,489	2,083,808	2,110,114	26,306
Federal sources	86,031	88,797	88,797	-
TOTAL REVENUE	2,394,800	2,557,041	2,568,804	11,763
EXPENDITURES:				
Instruction	1,763,966	1,835,292	1,753,842	81,450
Supporting services	839,886	798,762	814,179	(15,417)
TOTAL EXPENDITURES	2,603,852	2,634,054	2,568,021	66,033
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(209,052)	(77,013)	783	77,796
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	-	(742)	(7,809)	(7,067)
Incoming transfers - other schools	30,000	38,095	25,000	(13,095)
QZAB bond proceeds	-	-	-	-
Other outgoing transfers	(30,014)	(13,068)	(12,068)	1,000
Total other financing sources (uses)	(14)	24,285	5,123	(19,162)
NET CHANGE IN FUND BALANCE	\$ (209,066)	\$ (52,728)	5,906	\$ 58,634
FUND BALANCE - BEGINNING OF YEAR			301,282	
FUND BALANCE - END OF YEAR			\$ 307,188	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:			
Local sources:			
Taxes	\$ 314,780	\$ 293,259	\$ (21,521)
Earnings on investments	375	543	168
Tuition	18,312	15,544	(2,768)
Athletics	5,747	6,262	515
Contributions	950	950	-
Miscellaneous	44,272	53,335	9,063
Total local sources	<u>384,436</u>	<u>369,893</u>	<u>(14,543)</u>
State sources:			
Unrestricted grants:			
State aid	1,911,703	1,934,787	23,084
Restricted grants:			
Data Collection	6,368	7,124	756
Special Education	18,489	18,202	(287)
School Readiness	600	759	159
At-Risk	79,016	78,736	(280)
Best Practices	35,569	32,738	(2,831)
MPSERS cost offset	26,043	28,018	1,975
Other state revenue	6,020	9,750	3,730
Total state sources	<u>2,083,808</u>	<u>2,110,114</u>	<u>26,306</u>
Federal sources:			
Title I	48,598	48,598	-
Education Jobs Fund	4,962	4,962	-
Title II	16,164	16,164	-
REAP grant	19,073	19,073	-
Total federal sources	<u>88,797</u>	<u>88,797</u>	<u>-</u>
TOTAL REVENUES	<u>2,557,041</u>	<u>2,568,804</u>	<u>11,763</u>
EXPENDITURES:			
Instruction:			
Basic program:			
Elementary School	652,059	632,552	19,507
High School	1,016,833	954,216	62,617
Total basic program	<u>1,668,892</u>	<u>1,586,768</u>	<u>82,124</u>
Added needs:			
Special education	22,362	20,401	1,961
Compensatory education	80,928	67,937	12,991
At-Risk	63,110	78,736	(15,626)
Total added needs	<u>166,400</u>	<u>167,074</u>	<u>(674)</u>
Total instruction	<u>1,835,292</u>	<u>1,753,842</u>	<u>81,450</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
(Continued)
Year Ended June 30, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Supporting services:			
Pupil:			
Guidance	19,120	21,699	(2,579)
Instructional staff:			
Improvement of instruction	-	16,167	(16,167)
Library	46,847	45,949	898
Total instructional staff	46,847	62,116	(15,269)
General administration:			
Board of education	25,418	24,595	823
Executive administration	154,716	159,283	(4,567)
Total general administration	180,134	183,878	(3,744)
School administration - Principal	214,601	215,616	(1,015)
Business-fiscal services	43,273	41,718	1,555
Operation & maintenance	184,732	174,521	10,211
Pupil transportation	61,610	60,625	985
Athletics	48,445	54,006	(5,561)
Total supporting services	798,762	814,179	(15,417)
TOTAL EXPENDITURES	2,634,054	2,568,021	66,033
EXCESS OF REVENUES OVER EXPENDITURES	(77,013)	783	77,796
OTHER FINANCING SOURCES (USES):			
Incoming transfers - other schools	38,095	25,000	(13,095)
Operating transfer out	(742)	(7,809)	(7,067)
Other outgoing transfers	(13,068)	(12,068)	1,000
TOTAL OTHER FINANCING SOURCES (USES)	24,285	5,123	(19,162)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (52,728)</u>	5,906	<u>\$ 58,634</u>
FUND BALANCE, BEGINNING OF YEAR		301,282	
FUND BALANCE, END OF YEAR		<u>\$ 307,188</u>	

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2012

REVENUES:	
Local sources:	
Taxes:	
Current taxes	\$ 158,826
Interest income	664
Penalties & interest on delinquent taxes	<u>676</u>
 TOTAL REVENUES	 <u>160,166</u>
 EXPENDITURES:	
Interest on bonds	79,910
Other expense	<u>275</u>
 TOTAL EXPENDITURES	 <u>80,185</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 79,981
 OTHER FINANCING SOURCES (USES)	
Redemption of bond principal	<u>(110,000)</u>
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 (30,019)
 FUND BALANCE, BEGINNING OF YEAR	 <u>116,086</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 86,067</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
SCHOOL FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:			
Local sources:			
Adult lunches	\$ 2,730	\$ 4,010	\$ 1,280
Student lunches	18,000	17,385	(615)
Miscellaneous	79	134	55
	<hr/>	<hr/>	<hr/>
Total local sources	20,809	21,529	720
State sources	<hr/>	<hr/>	<hr/>
	4,375	3,689	(686)
Federal sources:			
School lunch program	72,000	88,579	16,579
USDA entitlements	134	9,320	9,186
USDA bonus entitlements	31	3,495	3,464
	<hr/>	<hr/>	<hr/>
Total federal sources	72,165	101,394	29,229
TOTAL REVENUES	<hr/>	<hr/>	<hr/>
	97,349	126,612	29,263
EXPENDITURES:			
Salaries	34,400	34,387	13
Employee benefits	7,136	9,777	(2,641)
Purchase services	65,289	90,324	(25,035)
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	106,825	134,488	(27,663)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<hr/>	<hr/>	<hr/>
	(9,476)	(7,876)	1,600
OTHER FINANCING SOURCES (USES)			
Operating transfers in	<hr/>	<hr/>	<hr/>
	-	7,809	7,809
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<hr/>	<hr/>	<hr/>
	\$ (9,476)	(67)	\$ 9,409
FUND BALANCE, BEGINNING OF YEAR		<hr/>	
		13,678	
FUND BALANCE, END OF YEAR		<hr/>	
		\$ 13,611	

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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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

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Dollar Bay-Tamarack City Area Schools as of and for the year then ended June 30, 2012 which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Dollar Bay-Tamarack City Area Schools, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the District's board of education, management and 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.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

October 31, 2012

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

310 Shelden Avenue, Houghton, Michigan 49931

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COMMUNICATION WITH THOSE IN CHARGE OF GOVERNANCE

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the financial statements of the governmental activities, each major fund , and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and government auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 23, 2012 . Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Dollar Bay-Tamarack City Area Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Dollar Bay-Tamarack City Area Schools' financial statements is current judgements.

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the board and management of Dollar Bay-Tamarack City Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

**Rukkila, Negro & Associates,
Certified Public Accountants, PC**

October 31, 2012