

**GLADSTONE AREA SCHOOLS**

**GLADSTONE, MICHIGAN**

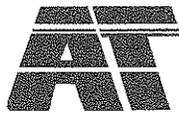
**FINANCIAL REPORT WITH  
SUPPLEMENTAL INFORMATION**

**June 30, 2007**

GLADSTONE AREA SCHOOLS

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Gladstone Area Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gladstone Area School'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 the Gladstone Area Schools as of June 30, 2007, and the respective changes in financial position thereof 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 8, 2007, on our consideration of the Gladstone Area School's internal control over financial reporting and 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 on pages 3 through 11 and 37 through 46, 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 Gladstone Area School's basic financial statements. The statements listed as other supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has 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.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

October 8, 2007

# **GLADSTONE AREA SCHOOLS**

## **Management's Discussion and Analysis**

This section of the Gladstone Area School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Gladstone Area School's financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund, the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### **Financial Section**

#### Basic Financial Statements

- District Wide Financial Statements

#### Fund Financial Statements

- Balance Sheet-Governmental Funds
- Statement of Revenues, Expenditures
- Statement of Fiduciary Net Assets
- Notes to Financial Statements

#### Required Supplemental Information

- Budgetary Comparison Schedules

#### Other Supplemental Information

- Combining Balance Sheet Nonmajor Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds

# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### The School District as a Whole

The following summarizes the net assets at fiscal year ended June 30, 2006 and 2007:

#### NET ASSETS SUMMARY

Assets	<u>2006</u>	<u>2007</u>
Current Assets	\$ 4,141,230	\$ 4,583,948
Capital Assets	<u>\$13,735,702</u>	<u>\$ 13,479,443</u>
Total Assets	<u><b>\$17,876,932</b></u>	<u><b>\$ 18,063,391</b></u>
<b>Liabilities</b>		
Current Liabilities	\$ 4,200,846	\$ 4,665,186
Long-term Liabilities	<u>\$17,375,453</u>	<u>\$ 16,353,496</u>
Total Liabilities	<u><b>\$21,576,299</b></u>	<u><b>\$ 21,018,682</b></u>
<b>Net Assets</b>		
Invested in property and equipment-net of related debt	\$ (917,484)	\$ (442,150)
Restricted	383,812	380,192
Unrestricted (Deficit)	<u>(3,165,695)</u>	<u>(2,893,333)</u>
Total Net Assets	<u><b>\$ (3,699,367)</b></u>	<u><b>\$ (2,955,291)</b></u>

The above analysis focuses on the net assets. The School District's net assets were a \$2,955,291 deficit as of June 30, 2007. Capital assets, net of related debt, totaled a \$442,150 deficit. This compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$380,192 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. The remaining \$2,893,333 deficit represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

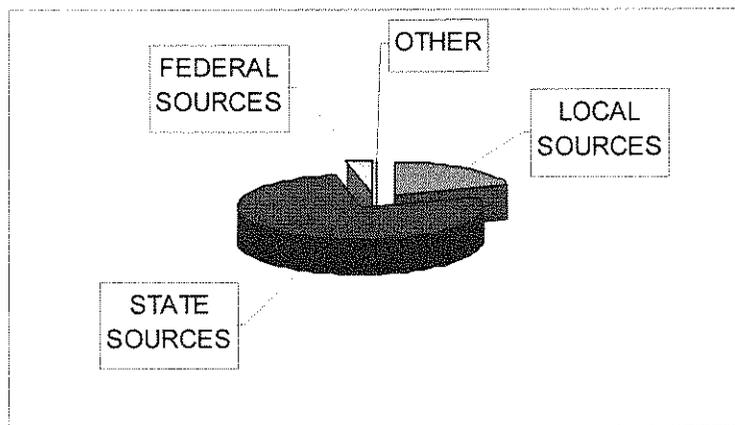
The results of this year's operations for Gladstone Area Schools as a whole are reported in the statement of activities, which show the changes in net assets for fiscal year 2007. Following the rules of GASB 34, a revenue and expense comparison to the previous year is shown.

<b>Program Revenues:</b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Charges for Services	\$ 390,589	\$ 370,939
Operating Grants and Contributions	<u>916,143</u>	<u>1,449,142</u>
Total Program Revenue	<u>\$ 1,306,732</u>	<u>\$ 1,820,081</u>
<b>General Revenues:</b>		
Property taxes levied for general operations	\$ 703,087	\$ 781,533
Property taxes levied for debt service	1,560,297	1,657,952
State Foundation Allowance	11,042,459	10,624,048
Other	<u>236,379</u>	<u>219,888</u>
Total General Revenues	<u>\$13,542,222</u>	<u>\$13,283,421</u>
Total Revenues	<u>\$14,848,954</u>	<u>\$15,103,502</u>
<b>Expenses:</b>		
Instruction	\$ 8,527,686	\$ 8,047,733
Support Services	4,204,615	4,333,427
Depreciation-Unallocated	522,686	535,239
Interest on Long-Term Debt	744,802	681,916
Loss on Sale of School Property	146,809	-0-
Athletics	185,131	189,137
Food Services	446,291	461,311
Public Library	<u>115,497</u>	<u>110,663</u>
Total Expenses	<u>\$14,893,517</u>	<u>\$14,359,426</u>
Change in net assets	<u>\$ (44,563)</u>	<u>\$ 744,076</u>

As indicated above, net assets increased by \$744,076. This increase relates directly to the operations of the District during the year.

**Revenues**

The following chart illustrates the Districts sources of revenues:



Revenue chart is based on all District Funds combined

**Sources of Revenues**

Local sources of revenues total \$2,974,330 and include revenues to the General Fund of \$929,147, School Lunch Fund of \$232,871, Athletic Fund of \$46,401, Public Library Fund of \$107,959, and Debt Retirement Fund of \$1,657,952.

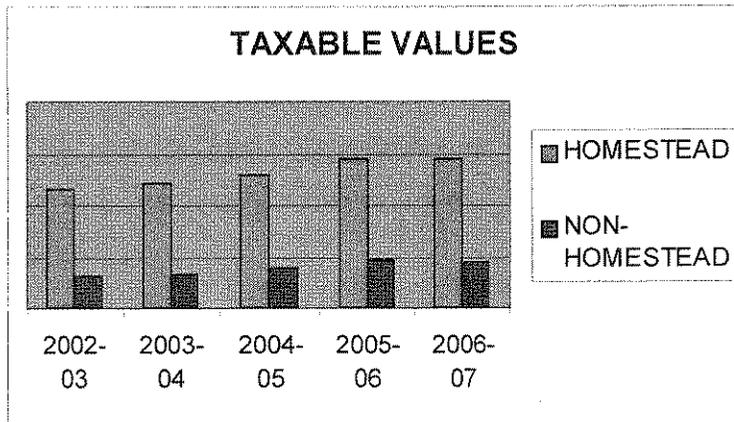
State sources of revenues total \$11,517,306 and include revenues to the General Fund of \$11,484,323, School Lunch Fund of \$25,611, and Public Library Fund of \$7,372. State Sources of revenue make up 90.45% of General Fund Revenues. This ties the District directly to the State's overall economy.

Federal sources of revenues total \$486,826 and include revenues to the General Fund of \$283,114, and School Lunch Fund of \$203,712.

Other sources of revenues total \$6,229 that is strictly School Lunch Fund revenue.

**Property Taxes**

A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$2,439,485. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 8.56-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments. Over the last 5 years taxable values have increased on average 4.03% and 6.02% for homestead and non-homestead properties, respectively. The following graph illustrates this increase:



**Unrestricted State Aid Foundation Allowance**

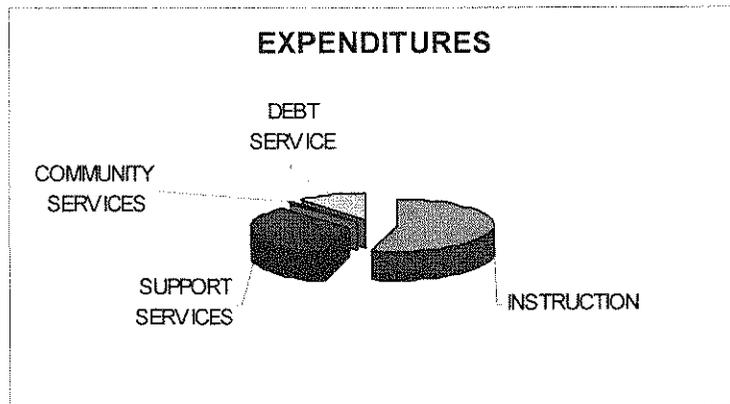
The most significant portion of funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$7,085 per student for the 2006-2007 fiscal year. The number of students to be funded is calculated by student enrollment blended at 75% of current year September count and 25% of prior year February count. Total blended student enrollment for this fiscal year is 1659.39. The overall funding is then reduced by the District's non-homestead tax levy based on 18-mills.

# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### Expenditures

The following chart illustrates the District's expenditures:



Expenditure chart is based on all District Funds combined

Expenditures include Instruction of \$8,122,998, Support Services of \$5,183,175, Community Services of \$110,663, and Debt Service of \$1,762,535. School Lunch Fund and Athletic Fund expenses are included in Support Services.

# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### **Capital Assets and Debt Administration**

#### **Capital Assets**

At June 30, 2007, the District had \$22,573,734 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

	<u>2006</u>	<u>2007</u>
Land	\$ 149,340	\$ 149,340
Land Improvements	539,740	553,969
Buildings and Improvements	19,896,018	20,032,368
Vehicles	963,962	1,043,442
Machinery and Equipment	<u>745,694</u>	<u>794,615</u>
Total	\$22,294,754	\$22,573,734
Less Accumulated Depreciation	<u>(8,559,052)</u>	<u>(9,094,291)</u>
Net Total	<u>\$13,735,072</u>	<u>\$13,479,443</u>

This was an increase in capital assets of \$278,980 over last year and includes land improvements, building improvements, vehicles, and equipment. Depreciation expense for the year is \$535,239.

#### **Debt**

At the end of this year the District had \$13,900,000 in General Obligation Bonds outstanding. This is a decrease of \$710,000, which is the result of principal payments made on the bonds.

#### **Economic Factors and Next Year's Budgets and Rates**

The Board of Education and administration consider many factors when setting the School District's 2007 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2007 budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since the District's revenue is heavily dependent upon state funding, actual funding depends on the state's ability to collect revenues to fund its appropriations to school districts.

# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### Original vs. Revised Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For fiscal year 2006-2007, the budget was revised in October 2006, February 2007, and June 2007.

### General Fund Revenues

Total revenues-June revision	\$12,806,068
Total revenues-original budget	<u>12,768,483</u>
Difference	<u>\$ (37,585)</u>

### Increase in Revenue Budget

The District's actual general fund revenues were \$29,110 less than the revised budget, a variance of .22%

A significant revised budget adjustment for the year was:

- Cuts in our federal grants

### General Fund Expenditures

Total expenditures-June revision	\$12,925,492
Total expenditures-original budget	<u>12,768,483</u>
Difference	<u>\$ 157,009</u>

### Increase in Expenditure Budget

The District's actual general fund expenditures were \$141,394 less than the revised budget, a variance of 1.09%

Some of the significant revised budget adjustments for the year include:

- Contracts negotiated during the year
- Increased costs for energy and bus fuel

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office at Gladstone Area Schools, 400 South Tenth Street, Gladstone, Michigan, 49837.

GLADSTONE AREA SCHOOLS

**STATEMENT OF NET ASSETS**

June 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and Equivalents	\$ 2,255,658
Prepaid Retirement	107,361
Investments	109,024
Accounts Receivable	2,098,635
Inventories	13,270
	<hr/>
Total Current Assets	4,583,948
	<hr/>
Non-Current Assets:	
Capital Assets - net	13,479,443
	<hr/>
Total Assets	\$ 18,063,391
	<hr/> <hr/>
<b>Liabilities:</b>	
Current Liabilities:	
Accounts Payable	\$ 309,248
Notes Payable	2,000,000
Interest Payable	244,162
Deferred Revenue	14,501
Accrued Payroll	746,773
Accrued Employee Benefits	480,127
Current Maturities of Long-Term Debt	870,375
	<hr/>
Total Current Liabilities	4,665,186
	<hr/>
Non-Current Liabilities:	
Bonds Payable	14,016,323
Notes Payable	1,737,289
Compensated Absences Payable	1,244,659
Early Retirement Payable	225,600
Less Current Maturities Reported Above	(870,375)
	<hr/>
Total Non-Current Liabilities	16,353,496
	<hr/>
Total Liabilities	\$ 21,018,682
	<hr/> <hr/>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	\$ (442,150)
Restricted for:	
Debt Service	380,192
Unrestricted (Deficit)	(2,893,333)
	<hr/>
Total Net Assets	\$ (2,955,291)
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See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets - Governmental Activities
<b>FUNCTIONS/PROGRAMS:</b>				
Instruction:				
Basic Programs	\$ 6,368,308	\$ 71,172	\$ 32,809	\$ (6,264,327)
Added Needs	1,679,425	-	1,158,487	(520,938)
Total Instruction	8,047,733	71,172	1,191,296	(6,785,265)
Support Services:				
Pupil	466,177	-	-	(466,177)
Instructional Staff	262,428	-	-	(262,428)
General Administration	334,210	-	-	(334,210)
School Administration	948,874	-	-	(948,874)
Business	207,693	-	-	(207,693)
Operation and Maintenance	1,238,031	-	-	(1,238,031)
Pupil Transportation	642,718	-	-	(642,718)
Activities Office	119,716	-	-	(119,716)
School Improvement	5,112	-	-	(5,112)
Outgoing Transfers	108,468	-	-	(108,468)
Total Support Services	4,333,427	-	-	(4,333,427)
Other:				
Depreciation - Unallocated	535,239	-	-	(535,239)
Interest on Long-Term Debt	681,916	-	-	(681,916)
Athletics	189,137	46,401	-	(142,736)
Food Services	461,311	239,100	229,323	7,112
Public Library	110,663	14,266	28,523	(67,874)
Total Other	1,978,266	299,767	257,846	(1,420,653)
Total Governmental Activities	\$ 14,359,426	\$ 370,939	\$ 1,449,142	(12,539,345)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				781,533
Property Taxes Levied for Debt Service				1,657,952
State Aid Formula Grants				10,624,048
Medicaid Reimbursement				9,439
Investment Earnings				104,057
City of Gladstone Public Library Appropriation				20,000
Penal Fines for Public Library Operations				52,542
Rental of School Facilities				4,810
Miscellaneous Sources				29,040
Total General Revenues				13,283,421
CHANGE IN NET ASSETS				744,076
Net Assets, Beginning of Year				(3,699,367)
NET ASSETS, END OF YEAR				\$ (2,955,291)

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Cash and Equivalents	\$ 1,855,065	\$ 322,442	\$ 78,151	\$ 2,255,658
Investments	-	-	109,024	109,024
Accounts Receivable	2,050,566	-	48,069	2,098,635
Inventories	-	-	13,270	13,270
Prepaid Retirement	107,361	-	-	107,361
<b>TOTAL ASSETS</b>	<u>\$ 4,012,992</u>	<u>\$ 322,442</u>	<u>\$ 248,514</u>	<u>\$ 4,583,948</u>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 301,028	\$ -	\$ 8,220	\$ 309,248
Notes Payable	2,000,000	-	-	2,000,000
Interest Payable	74,009	-	-	74,009
Deferred Revenue	73,480	-	9,625	83,105
Accrued Payroll	742,593	-	4,180	746,773
Accrued Employee Benefits	473,367	-	6,820	480,127
<b>TOTAL LIABILITIES</b>	<u>3,664,417</u>	<u>-</u>	<u>28,845</u>	<u>3,693,262</u>
<b>FUND BALANCES:</b>				
Fund Balance:				
Reserved for Inventories	-	-	13,270	13,270
Reserved for Prepays	107,361	-	-	107,361
Reserved for Debt Service	57,750	322,442	-	380,192
Unreserved:				
Undesignated	183,464	-	-	183,464
Undesignated - Special Revenue Funds	-	-	97,375	97,375
Undesignated - Capital Project Funds	-	-	109,024	109,024
<b>TOTAL FUND BALANCES</b>	<u>348,575</u>	<u>322,442</u>	<u>219,669</u>	<u>890,686</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 4,012,992</u>	<u>\$ 322,442</u>	<u>\$ 248,514</u>	<u>\$ 4,583,948</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total fund balances - governmental funds \$ 890,686

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 the governmental funds. The cost of the assets is \$22,573,734, and the accumulated depreciation is \$9,094,291 13,479,443

Long-term assets that are not available to pay for current period expenditures and are shown as deferred in the specific governmental funds. 68,604

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:

Bonds payable	\$ 14,016,323	
Notes payable - bleachers	21,593	
Note payable - State Bond Loan Fund	1,715,696	
Accrued interest on bonds and notes	170,153	
Compensated absences	1,244,659	
Early retirement payable	225,600	(17,394,024)

Total net assets - governmental activities \$ (2,955,291)

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

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

For the year ended June 30, 2007

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Local Sources	\$ 929,147	\$ 1,657,952	\$ 387,231	\$ 2,974,330
State Sources	11,484,323	-	32,983	11,517,306
Federal Sources	283,114	-	203,712	486,826
Other	-	-	6,229	6,229
<b>TOTAL REVENUES</b>	<b>12,696,584</b>	<b>1,657,952</b>	<b>630,155</b>	<b>14,984,691</b>
EXPENDITURES:				
Instruction:				
Basic Programs	6,443,573	-	-	6,443,573
Added Needs	1,679,425	-	-	1,679,425
<b>Total Instruction</b>	<b>8,122,998</b>	<b>-</b>	<b>-</b>	<b>8,122,998</b>
Support Services:				
Pupil	466,177	-	650,448	1,116,625
Instructional Staff	262,428	-	-	262,428
General Administration	334,210	-	-	334,210
School Administration	948,874	-	-	948,874
Business	207,693	-	-	207,693
Operation and Maintenance	1,238,031	-	-	1,238,031
Pupil Transportation	642,718	-	-	642,718
Activities Office	119,716	-	-	119,716
School Improvement	5,112	-	-	5,112
Outgoing Transfers	108,468	-	-	108,468
Community Services	-	-	110,663	110,663
Capital Outlay	44,450	-	154,850	199,300
Debt Service	96,727	1,665,808	-	1,762,535
<b>Total Support Services</b>	<b>4,474,604</b>	<b>1,665,808</b>	<b>915,961</b>	<b>7,056,373</b>
<b>TOTAL EXPENDITURES</b>	<b>12,597,602</b>	<b>1,665,808</b>	<b>915,961</b>	<b>15,179,371</b>
EXCESS REVENUES (EXPENDITURES)	98,982	(7,856)	(285,806)	(194,680)
OTHER FINANCING SOURCES (USES):				
Interest Earned	80,374	10,536	13,147	104,057
Operating Transfers In	-	-	186,496	186,496
Operating Transfers Out	(186,496)	-	-	(186,496)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(106,122)</b>	<b>10,536</b>	<b>199,643</b>	<b>104,057</b>
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	(7,140)	2,680	(86,163)	(90,623)
Fund Balance, Beginning of Year	355,715	319,762	305,832	981,309
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 348,575</b>	<b>\$ 322,442</b>	<b>\$ 219,669</b>	<b>\$ 890,686</b>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

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

For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ (90,623)
The change in fund balances reported for governmental activities in the statement of activities is different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$535,239) exceeds capital outlays (\$278,980) for the period.	(256,259)
Repayment of principal on debt is an expenditure in the governmental funds but reduces the debt liability in the statement of net assets.	997,207
Revenues in the statement of activities that provide current financial resources are not reported as revenues in the specific governmental funds.	14,755
In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.	(4,415)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized when the interest accrues, regardless of when it is due. The additional interest reported is a net result of these factors.	<u>83,411</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 744,076</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS  
**STATEMENT OF FIDUCIARY NET ASSETS**

June 30, 2007

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and Equivalents	\$ 11,026	\$ 92,133
Accounts Receivable	12,850	-
TOTAL ASSETS	\$ 23,876	\$ 92,133
LIABILITIES:		
Scholarships Payable	\$ 16,825	\$ -
Due to Student Groups	-	92,133
TOTAL LIABILITIES	\$ 16,825	\$ 92,133
NET ASSETS		
Reserved for Scholarships	\$ 6,504	
Unreserved	547	
TOTAL NET ASSETS	\$ 7,051	

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2007

	<u>Private- Purpose Trusts</u>
ADDITIONS:	
Gifts and Contributions	\$ 18,794
Interest Earned	85
	<hr/>
TOTAL ADDITIONS	18,879
	<hr/>
DEDUCTIONS:	
Scholarships Awarded	17,075
Miscellaneous	5,988
	<hr/>
TOTAL DEDUCTIONS	23,063
	<hr/>
CHANGE IN NET ASSETS	(4,184)
Net Assets, Beginning of Year	11,235
	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 7,051</u>

See accompanying notes to financial statements.

# GLADSTONE AREA SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladstone Area Schools (The School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

(1) Reporting Entity – In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39. Based upon the criteria outlined in this statement, the financial statements of the Gladstone Area Schools contain all the funds controlled by the District's Board of Education. There are no other entities that meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

(2) Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) 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 – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Restricted net assets – This category consists of net assets with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. There is \$380,192 of restricted net assets in the Statement of Net Assets due to the provisions of enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of the categories listed above.

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 District's functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

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

(3) Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The various funds are grouped in the financial statements in this report into two broad fund categories and five generic fund types as follows:

#### 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.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund, Athletic and Bookstore Fund and Public Library Fund.

# GLADSTONE AREA SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Major Maintenance Fund and the Technology Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

#### Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust funds maintained by the District are the Scholarship Fund and the Health Services Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency funds maintained by the District are the Middle School Activity, the High School Activity, the Vocational Activity Fund and the James T. Jones Activity Fund.

(4) Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus. The government-wide financial statements use the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
- b. Modified Accrual Basis – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

(5) Investments – Investments are recorded at fair market value.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(6) Inventory – The General Fund of the District utilizes the purchase method for recording the inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

The School Lunch Fund utilizes the consumption method of recording the inventory of food and supplies held for consumption, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

(7) Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

*Government-wide Statements*

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Assets. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	50 years
Land improvements	15 - 20 years
Vehicles	8 years
Equipment	5 – 15 years

*Fund Financial Statements*

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

(8) Use of 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 reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B – CASH AND EQUIVALENTS**

The composition of cash and equivalents as reported in the Statement of Net Assets and the Statement of Fiduciary Net Assets is presented below:

Financial statement presentation:	
Cash and Equivalents	\$ 2,358,817
Investments	<u>109,024</u>
 TOTAL	 <u><u>\$ 2,467,841</u></u>
 Composition of balances:	
Imprest Cash	\$ 887
Deposits:	
Checking Accounts	1,977,831
Savings Accounts	380,099
Investments	<u>109,024</u>
 TOTAL	 <u><u>\$ 2,467,841</u></u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The District's investments are with the Michigan Liquid Asset Fund (MILAF). This is a mutual fund that is not subject to risk categorization. These investments are recorded at estimated fair value, which is based on quoted market prices.

*Interest Rate Risk*. The District carries no significant interest rate risk as all of its holdings are in bank accounts or mutual funds with a high degree of liquidity. The District's policies therefore do not address this risk.

*Credit Risk*. State law limits investments in commercial paper to the top two ratings issued by nationally

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007

#### NOTE B – CASH AND EQUIVALENTS (continued)

recognized statistical rating organizations with a maximum maturity of 270 days. As of June 30, 2007, the District did not hold any commercial paper.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2007 the District held \$2,470,973 in checking and savings accounts. Of this amount \$2,175,809 was uninsured and uncollateralized.

*Concentration of Credit Risk.* The District has no significant concentration of credit risk due to fact that its deposits are with area banks or with the MILAF mutual fund. The District's policies therefore do not address this risk.

*Foreign Currency Risk.* The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.

#### NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Balance June 30, 2006	Additions	Disposals	Balance June 30, 2006
Land (not being depreciated)	\$ 149,340	\$ -	\$ -	\$ 149,340
Land Improvements	539,740	14,229	-	553,969
Buildings and Improvements	19,896,018	136,350	-	20,032,368
Vehicles	963,962	79,480	-	1,043,442
Machinery and Equipment	745,694	48,921	-	794,615
Depreciable Assets	22,145,414	278,980	-	22,424,394
Total Assets	22,294,754	278,980	-	22,573,734
Accumulated Depreciation	(8,559,052)	(535,239)	-	(9,094,291)
Net Total	<u>\$ 13,735,702</u>	<u>\$ (256,259)</u>	<u>\$ -</u>	<u>\$ 13,479,443</u>

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007

#### **NOTE D - SCHOOL DISTRICT SCHOLARSHIP FUND**

On March 17, 1997, the Gladstone Area School District entered into an agreement to create a charitable scholarship endowment within the Community Foundation for Delta County. The purpose of the fund is to benefit the education and development of graduates of the Gladstone Area School District through scholarships for college or post-secondary education. These assets no longer appear in the financial statements of the Gladstone Area School District. All assets of the fund will be repaid to the School District upon termination of the Community Foundation. Remaining cash in the Gladstone Area School's Scholarship Fund will be used for various miscellaneous scholarships.

#### **NOTE E - ACCRUED FRINGE BENEFITS**

The District, as part of the various employment contracts with its personnel, allows for annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

Vacation Days – Various office, custodial and administrative employees of the District are allowed to accumulate vacation days in the year when they are earned. Year-round administrators, other than the superintendent, must use their vacation before June 30. Liability of the District for the employees' unused vacation days has been calculated to be \$47,825 at June 30, 2007.

Sick Leave - The various employment contracts with District personnel stipulate four different methods of accumulating and paying for unused sick leave.

Teachers - Twelve days are allowed annually, accumulative to 160 days. Accumulated days are payable only upon retirement or death, and then only to teachers with 10 years employment. The amount payable is at a rate of one-half of the teacher's daily rate of pay at time of retirement or death, multiplied by the number of accumulated unused sick days up to a maximum of 125 days.

Non-Teaching Employees – One-half day per month is allowed with a maximum accumulation of 132 days. For employees hired before July 1, 1984, up to 120 accumulated days are payable in total at the employee's prevailing rate of pay upon retirement or death. Employees hired July 1, 1984 and thereafter are paid for one-half of their accumulated sick days (maximum accumulation of 120 days) multiplied by their prevailing rate of pay upon retirement or death. Employees hired after July 1, 2005 shall not accumulate any sick days.

Administrators - Thirteen days per year are allowed for all administrators, with a maximum accumulation of 165 days. Accumulated days are payable only upon retirement or death, and then only to administrators with 10 years employment. The amount payable is at a rate that varies from 55 percent to 60 percent of the administrator's daily rate of pay at retirement or death multiplied by the number of accumulated unused sick days up to a maximum of 125 days.

Superintendent - One day per month is allowed, accumulative to 160 days. Accumulated days are

**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007

**NOTE E – ACCRUED FRINGE BENEFITS (continued)**

payable in total at the superintendent's actual rate of pay, upon retirement or death.

The total unused sick leave earned as of June 30, 2007 has been calculated to be \$2,498,316. The accrued liability of \$1,144,948 represents the amount expected to be paid upon retirement or death for employees who have vested and those considered as likely to vest.

Personal Business Days - Teachers and administrators will be credited with three personal business days per school year, with an accumulation to a maximum of five days. Non-teaching employees will be credited with three personal days per school year.

A teacher may elect to either receive a reimbursement for unused personal days, up to a maximum of five days at the rate of a substitute teacher's daily salary, or to carry the personal days to the next year. Administrators add unused personal days to accumulated sick leave. Non-teaching employees may carry two personal days over to the next fiscal year.

The accrued liability for unused personal days as of June 30, 2007 amounted to \$51,886.

Early Retirement Incentive - During the year ended June 30, 2007, eligible employees were allowed to choose between two early retirement incentive plans. The current employment contracts with teachers and administrators allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of \$150 per month for a period of up to seven years. At June 30, 2007, 42 retirees were receiving, or eligible to begin receiving, this early retirement incentive. The total estimated early retirement incentive liability, under current employment contracts, as of June 30, 2007 amounted to \$225,600.

**NOTE F - DEFERRED REVENUE**

Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Deferred revenue represents unexpended funds received or receivable from state and federal project grants. Deferred revenue at June 30, 2007 consisted of the following:

**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007

**NOTE F – DEFERRED REVENUE (continued)**

General Fund:	
At Risk Grant	\$ 3,394
MIBSLI	1,482
Durant	34,993
2% Casino Revenue	22,272
Driver's Education	<u>11,339</u>
Subtotal	73,480
Hot Lunch Fund:	
Inventory	<u>9,625</u>
Total	<u><u>\$ 83,105</u></u>

**NOTE G – SHORT-TERM DEBT**

The District's short-term debt activity, used solely for the purpose of operating cash flow, was as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2007</u>
Michigan Municipal Bond Authority	<u>\$ 1,500,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,500,000</u>	<u>\$ 2,000,000</u>

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT**

The following is a summary of the changes in general long-term debt for the year ending June 30, 2007:

	<u>Durant</u> <u>Bonds</u>	<u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Notes</u> <u>Payable</u>	<u>Accrued</u> <u>Fringe</u> <u>Benefits</u>	<u>Total</u>
Balance, June 30, 2006	\$ 116,323	\$ 14,610,000	\$ 1,913,869	\$ 1,576,471	\$ 18,216,663
Additions	-	-	-	4,415	4,415
Retirements	-	<u>(710,000)</u>	<u>(176,580)</u>	<u>(110,627)</u>	<u>(997,207)</u>
Balance, June 30, 2006	<u>\$ 116,323</u>	<u>\$ 13,900,000</u>	<u>\$ 1,737,289</u>	<u>\$ 1,470,259</u>	<u>\$ 17,223,871</u>

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)**

At June 30, 2007 the School District's long-term debt consisted of the following:

Durant Bonds

Bonds payable, due in annual installments of principal and interest at a rate of 4.76%. Payments are due annually on May 15<sup>th</sup> beginning in 2006 and continuing until 2013. \$ 116,323

General Obligation Bonds

December 3, 1998 issue used to refund a portion of the February 3, 1997 issue, due in annual installments varying from \$35,000 to the final principal payment of \$390,000 due May 1, 2026. Interest is due semiannually with variable rates ranging from 4.05% to 4.75%. \$ 7,275,000

November 18, 2004 issue used to refund a portion of the February 3, 1997 issue, due in annual installments varying from \$60,000 to \$390,000 with the final principal payment being due on May 1, 2026. Interest is due semiannually at variable rates ranging from 2.5% to 4.5% 6,625,000

TOTAL GENERAL OBLIGATION BONDS \$ 13,900,000

Notes Payable

June 4, 2002 borrowing due in variable semi-annual installments from November 1, 2002 through November 1, 2007, including interest at 3.5%. Principal payments are due annually from November 1, 2003 through November 1, 2007. \$ 17,795

June 4, 2002 borrowing due in variable semi-annual installments from November 1, 2002 through November 1, 2007, including interest at 3.5%. Principal payments are due annually from November 1, 2003 through November 1, 2007. 3,798

**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)**

4/29/98, 10/29/98, 10/25/99, 10/25/00, 10/25/01 and 10/25/02 borrowings from the Michigan Department of Treasury at various interest rates ranging between 5.125% and 2.875%. Payment schedule not determined.

1,715,696

TOTAL NOTES PAYABLE

\$ 1,737,289

The estimated debt service requirements for principal to maturity as of June 30, 2007, with the exception of the Michigan Department of Treasury note and accrued fringe benefits other than early retirement, is as follows:

Year Ending 6/30	General Obligation Bonds	Notes Payable	Early Retirement Incentives	Principal Total	Interest Total
2008	\$ 735,000	\$ 21,593	\$ 57,750	\$ 814,343	\$ 590,379
2009	760,964	-	53,100	814,064	567,619
2010	837,517	-	43,500	881,017	563,301
2011	782,032	-	29,700	811,732	511,333
2012	790,810	-	20,250	811,060	482,319
2013-2017	3,685,000	-	21,300	3,706,300	1,939,958
2018-2022	3,605,000	-	-	3,605,000	1,131,572
2023-2027	2,820,000	-	-	2,820,000	324,841
<b>TOTAL</b>	<u>\$ 14,016,323</u>	<u>\$ 21,593</u>	<u>\$ 225,600</u>	<u>\$ 14,263,516</u>	<u>\$ 6,111,322</u>

**Accrued Employee Benefits**

Accrued employee benefits included in general long-term debt is for the accumulated terminal leave built up by employees from unused sick leave, vacation days, personal days and early retirement incentive, as is further discussed in Note E. The accumulated employee benefits included in general long-term debt at June 30, 2007 was \$1,470,259.

The debt service requirements for accrued employee benefits (except for early retirement incentives) are dependent upon future employee retirements and terminations. Thus future payments are unknown at June 30, 2007.

# GLADSTONE AREA SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### **NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)**

The debt service requirements for the note payable to Michigan Department of Treasury is not listed above as this note will be repaid as funds become available in the Debt Retirement Fund. Funds will become available as the debt retirement tax levy begins to exceed the debt payment schedule. An interest payment of \$170,001 and a principal payment of \$154,987 occurred during the year ended June 30, 2007. The remainder of the debt repayment schedule remains uncertain.

### **NOTE I - RESERVED FUND BALANCE**

Fund balance has been reserved in the general fund for the current portion of early retirement benefits in the amount of \$57,750.

### **NOTE J – INTERFUND ACTIVITY**

During the year the District had interfund activity that was for operational purposes. The General Fund transferred \$134,511 to the Athletics & Bookstore Special Revenue Fund, \$16,413 to the Hot Lunch Special Revenue Fund, \$17,786 to the Major Maintenance Capital Projects Fund and \$17,786 to the Technology Capital Projects Fund during the year. For the government-wide financial statements this interfund activity has been eliminated.

### **NOTE K - PROPERTY TAXES**

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1, and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County Delinquent Tax Revolving Fund, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District tax rates are 18.00 mils per \$1,000 taxable value on non-homestead property for general operations and 8.56 mils per \$1,000 taxable value on both homestead and non-homestead property for debt retirement.

### **NOTE L - RETIREMENT PLAN**

Plan Description - The School District contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing, multiple-employer, statewide public employee retirement plan governed by the State of Michigan. The District's total annual payroll for the year ended June 30, 2007 was \$7,621,733 of which \$7,174,316 was eligible compensation under MPSERS.

All non-student employees are eligible to participate in the MPSERS. Benefits vest after 10 years of service. Employees under the Basic Plan may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of service. A Member Investment Plan (MIP) member may retire at any age with 30

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007

#### **NOTE L – RETIREMENT PLAN (continued)**

years of credited service or at age 60 with 5 years of service. Both Basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The System also provides survivor, death and disability benefits.

Benefits are paid monthly over the member's lifetime and are equal to 1.5% of the members' final average compensation multiplied by the member's years of credit service. The final average compensation period for Basic members is sixty consecutive months and for MIP members it is 36 consecutive months. Also under MPSERS, retirees have the option of continuing health, dental and vision coverage, with a portion of the cost being borne by them.

Contributions Required and Made - The District is required by state statute to contribute 17.74% of all eligible employees' salaries to the System. Employees who are members of the MIP (membership is required for employees hired after December 31, 1989) are required by statute to contribute an additional 4% of their salary to the Plan. Total School District contributions to the System for the years ended June 30, 2007, 2006, and 2005 were \$1,155,695, \$1,217,100, and \$1,094,204, respectively, which were equal to the required contributions for each year.

MPSERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MPSERS at P.O. Box 30673, Lansing, MI 48909-8103, or by calling (517) 322-5103.

#### **NOTE M - STATE FOUNDATION REVENUE**

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. 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. For the year ended June 30, 2007, the foundation allowance was based on 25 percent of pupil membership count taken in February of 2006 and 75 percent of pupil membership count taken in September of 2006.

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 that 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 payments from October through August. The local revenue is recognized as outlined in Note K which discusses property taxes.

# GLADSTONE AREA SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### NOTE N - BUDGETS AND BUDGETARY ACCOUNTING

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

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. Numerous opportunities exist for public comment during the budget process, including at least two formal public hearings.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. The Gladstone School District adopts its annual budgets on a program basis. The program is defined in a formal budget structure and glossary of terms adopted by Board action. The program budget structure consists of five levels of detail as follows:

Resource allocation  
Major functional group  
Department  
Program  
Activity

At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board, i.e., department, program, or activity level.

6. A detailed line item breakdown is prepared for each program, for the purpose of accounting control. Since each budget is adopted at a program level rather than the detailed line item level, transfers between line items are allowable without Board approval. Board approval is required for revision of any program budget.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007

#### **NOTE O – RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

#### **NOTE P - DURANT BONDS AND STATE REVENUE SOURCE**

The Gladstone Area Schools are to receive a total of \$394,007 as a result of the Durant lawsuit settlement. The Gladstone Area Schools received \$197,004 from Durant bond proceeds during fiscal year 1999 and will also receive \$197,004 over a ten-year period from 2000 to 2009. During fiscal year 1999, the Gladstone Area Schools received the entire \$197,004 Durant bond proceeds and the first of the payments of the settlement payments in the amount of \$19,700. During fiscal years 2000 – 2006 the District received each of the payments of \$19,700. As of June 30, 2007, \$39,400 is yet to be received from the State of Michigan.

The Durant bonds are a legal obligation of the school district and are recorded in these financial statements as long-term debt. The annual State of Michigan appropriation is the only revenue source for making the debt service payment on the bonds. If the state legislature fails to appropriate the funds, the District is under no obligation for payment.

#### **NOTE Q - OTHER COMMITMENTS AND CONTINGENCIES**

The retiree health, dental and vision coverage under the Michigan Public School Employees Retirement System (MPERS - see Note L) is currently funded on a pay-as-you-go basis. This funding policy is being challenged in the state courts. The outcome of this litigation and its potential effect on the School District are uncertain as of the date of these financial statements.

**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007

**NOTE Q – OTHER COMMITMENTS AND CONTINGENCIES (continued)**

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2007.

**REQUIRED SUPPLEMENTAL INFORMATION**

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Local Sources:				
Property Tax Levy	\$ 716,881	\$ 822,262	\$ 781,533	\$ (40,729)
Preschool Fees	43,750	33,210	33,210	-
Drivers Education Fees	21,470	39,801	37,962	(1,839)
Rental of School Facilities	4,460	4,460	4,810	350
Medicaid Fee For Service	36,547	37,653	9,439	(28,214)
2% Casino Revenue	-	36,448	31,634	(4,814)
ISD Mini Grant	-	3,000	1,518	(1,482)
Miscellaneous	30,241	28,841	29,041	200
<b>Total Local Sources</b>	<b>853,349</b>	<b>1,005,675</b>	<b>929,147</b>	<b>(76,528)</b>
State Sources:				
State Aid - Foundation Grant	11,125,591	10,581,680	10,624,048	42,368
Other State Aid:				
Special Education	52,544	506,390	506,390	-
Equity Payment	58,337	38,166	38,166	-
Vocational Education	17,632	15,463	24,475	9,012
Durant Funds	29,700	6,000	5,249	(751)
At Risk Grant	264,819	289,321	285,903	(3,418)
Gifted & Talented	-	92	92	-
<b>Total State Sources</b>	<b>11,548,623</b>	<b>11,437,112</b>	<b>11,484,323</b>	<b>47,211</b>
Federal Sources:				
Title I	190,038	165,825	161,692	(4,133)
Title V	697	354	354	-
Title IIA	84,758	89,509	88,475	(1,034)
Title IID	3,424	1,663	1,663	-
Indian Education	29,805	28,474	28,474	-
Drug Free Grant	3,289	2,456	2,456	-
<b>Total Federal Sources</b>	<b>312,011</b>	<b>288,281</b>	<b>283,114</b>	<b>(5,167)</b>
<b>TOTAL REVENUES</b>	<b>12,713,983</b>	<b>12,731,068</b>	<b>12,696,584</b>	<b>(34,484)</b>
<b>EXPENDITURES:</b>				
Instruction:				
Basic Programs:				
Elementary:				
Salaries:				
Teachers	\$ 1,592,861	\$ 1,687,629	\$ 1,687,628	\$ 1
Schedule B	650	684	662	22
Substitutes	30,075	36,700	35,383	1,317
Early Retirement	24,100	24,700	24,700	-
FICA	125,513	133,493	129,627	3,866
Health Insurance	495,098	452,952	452,951	1
Insurance Opt-out	3,000	5,700	5,600	100
Retirement	288,024	305,933	296,211	9,722
Repair & Maintenance	28,000	27,500	20,506	6,994
Travel	5,411	700	564	136
Unemployment	-	23,003	22,763	240
Teaching Supplies	61,666	46,595	44,969	1,626
Textbooks	1,540	431	431	-
Workers' Compensation	3,963	3,963	3,963	-
Other Supplies	20,578	12,860	12,785	75
<b>Total Elementary</b>	<b>2,680,479</b>	<b>2,762,843</b>	<b>2,738,743</b>	<b>24,100</b>

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Middle School:				
Salaries:				
Teachers	863,262	901,887	901,887	-
Schedule B	12,467	12,225	11,577	648
Substitutes	18,500	12,750	12,736	14
Early Retirement	22,300	20,800	20,800	-
FICA	69,377	71,523	70,164	1,359
Health Insurance	243,531	241,418	241,417	1
Insurance Opt-out	360	1,800	1,800	-
Retirement	158,636	163,624	161,789	1,835
Other Supplies	3,600	2,500	2,376	124
Repair & Maintenance	6,800	7,800	5,983	1,817
Travel	2,897	941	940	1
Unemployment	9,800	17,600	17,567	33
Workers' Compensation	2,769	2,769	2,769	-
Teaching Supplies	14,983	14,417	14,038	379
Textbooks	7,191	5,949	5,947	2
<b>Total Middle School</b>	<b>1,436,473</b>	<b>1,478,003</b>	<b>1,471,790</b>	<b>6,213</b>
Secondary:				
Salaries:				
Teachers	1,266,757	1,316,213	1,316,213	-
Schedule B	22,000	29,813	27,434	2,379
Substitutes	21,000	26,700	26,693	7
Early Retirement	19,400	19,400	19,400	-
FICA	102,066	106,030	104,645	1,385
Health Insurance	320,997	340,392	340,391	1
Insurance Opt-out	8,040	4,800	4,800	-
Retirement	232,706	244,308	240,562	3,746
Repair & Maintenance	22,375	15,200	11,383	3,817
Travel	3,600	2,300	2,281	19
Unemployment	-	17,000	16,877	123
Workers' Compensation	3,132	3,132	3,132	-
Contracted Services	15,000	9,700	9,566	134
Teaching Supplies	42,120	34,446	34,393	53
Textbooks	2,700	900	805	95
Other Supplies	5,580	5,000	3,521	1,479
<b>Total Secondary</b>	<b>2,089,473</b>	<b>2,175,334</b>	<b>2,162,096</b>	<b>13,238</b>
Pre-School:				
Salaries:				
Teachers	23,000	17,000	17,000	-
Aides	7,869	6,269	6,269	-
Substitutes	500	154	154	-
Early Retirement	1,800	1,800	1,800	-
FICA	2,537	1,930	1,930	-
Health Insurance	9,303	6,825	6,820	5
Retirement	5,565	4,155	4,146	9
Workers' Compensation	75	75	75	-
Teaching Supplies	464	295	159	136
<b>Total Pre-School</b>	<b>51,113</b>	<b>38,503</b>	<b>38,353</b>	<b>150</b>
Driver Training:				
Salaries	12,700	17,000	15,804	1,196
FICA	972	1,301	1,209	92
Retirement	2,253	3,016	2,490	526
Vehicle Replacement	-	13,030	13,030	-
Travel	-	100	58	42
<b>Total Driver Training</b>	<b>15,925</b>	<b>34,447</b>	<b>32,591</b>	<b>1,856</b>
<b>Total Instruction - Basic Programs</b>	<b>6,273,463</b>	<b>6,489,130</b>	<b>6,443,573</b>	<b>45,557</b>

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Added Needs:				
Gifted and Talented:				
Supplies	-	92	92	-
Special Education:				
Salaries:				
Teachers	607,364	569,365	568,625	740
Aides	157,822	180,447	171,429	9,018
Substitutes	11,525	12,250	11,642	608
Substitute Aides	9,600	9,500	9,061	439
Early Retirement	1,800	1,800	1,800	-
FICA	57,113	59,986	59,367	619
Health Insurance	287,612	262,670	255,525	7,145
Insurance Opt-out	1,800	9,125	9,124	1
Retirement	131,571	137,120	132,475	4,645
Travel	3,862	92	90	2
Workers' Compensation	2,272	2,272	2,272	-
Purchased Services	-	12,000	9,422	2,578
Teaching Supplies	6,696	3,950	3,851	99
Total Special Education	<u>1,279,037</u>	<u>1,260,577</u>	<u>1,234,683</u>	<u>25,894</u>
Title II:				
Salaries	45,589	51,830	51,719	111
FICA	3,488	3,966	3,965	1
Retirement	8,087	9,193	8,546	647
Purchased Services	5,450	5,450	5,450	-
Health Insurance	16,215	16,096	16,095	1
Travel	5,829	2,600	2,600	-
Workers' Compensation	100	100	100	-
Technology	3,424	1,663	1,663	-
Total Title II	<u>88,182</u>	<u>90,898</u>	<u>90,138</u>	<u>760</u>
Mini Grants:				
Durant Funds	29,700	6,000	5,249	751
Voc Ed Added Cost	17,632	25,766	25,646	120
At Risk Grant:				
Salaries	18,365	28,400	27,743	657
Health Insurance	5,814	5,684	5,684	-
Insurance Opt-out	2,400	2,400	2,400	-
Retirement	3,258	5,038	4,768	270
FICA	1,589	2,356	2,306	50
Alternative Ed Students	75,122	84,154	84,154	-
Acclerated Reader	2,000	2,000	1,989	11
Workers' Compensation	79	79	79	-
MII MIBSLI	-	3,000	1,518	1,482
Title V	697	354	354	-
Drug Free Grant	3,289	2,456	2,456	-
Total Mini Grants	<u>159,945</u>	<u>167,687</u>	<u>164,346</u>	<u>3,341</u>
Title I:				
Salaries				
Director	7,268	7,268	7,268	-
Teachers	25,768	23,362	23,361	1
Aides	77,033	69,290	67,826	1,464
Substitute Aides	2,000	500	413	87
FICA	8,956	8,415	8,297	118
Health Insurance	34,672	24,694	24,026	668
Insurance Opt-out	5,000	9,584	9,583	1
Retirement	19,882	17,786	15,392	2,394

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Audit Services	600	600	600	-
Travel	-	136	136	-
Teaching Family Home	4,183	4,139	4,139	-
Workers' Compensation	458	458	458	-
Teaching Supplies	4,219	193	193	-
<b>Total Title I</b>	<b>190,039</b>	<b>166,425</b>	<b>161,692</b>	<b>4,733</b>
Indian Education;				
Salaries:				
Coordinator	20,408	20,408	20,408	-
FICA	1,561	1,561	1,561	-
Retirement	3,622	3,592	3,592	-
Audit Services	249	250	250	-
Telephone	300	300	300	-
Postage	125	125	125	-
Travel	3,164	1,043	1,043	-
Workers' Compensation	102	102	102	-
Other Supplies	274	1,093	1,093	-
<b>Total Indian Education</b>	<b>29,805</b>	<b>28,474</b>	<b>28,474</b>	<b>-</b>
<b>Total Instruction - Added Needs</b>	<b>1,747,008</b>	<b>1,714,153</b>	<b>1,679,425</b>	<b>34,728</b>
<b>Total Instruction</b>	<b>8,020,471</b>	<b>8,203,283</b>	<b>8,122,998</b>	<b>80,285</b>
Support Services:				
Pupil:				
Attendance:				
Salaries	27,224	21,165	21,161	4
FICA	2,465	1,842	1,842	-
Health Insurance	-	2,583	2,499	84
Insurance Opt-out	5,000	2,084	2,083	1
Retirement	4,829	3,577	3,427	150
Workers' Compensation	131	131	131	-
<b>Total Attendance</b>	<b>39,649</b>	<b>31,382</b>	<b>31,143</b>	<b>239</b>
Guidance:				
Salaries:				
Counselors	38,770	53,571	51,956	1,615
Secretary	26,040	26,285	25,947	338
Substitutes	1,170	850	711	139
Early Retirement	6,800	6,800	6,800	-
FICA	5,185	6,312	6,152	160
Health Insurance	24,601	27,463	27,462	1
Retirement	11,705	14,315	13,338	977
Workers' Compensation	213	213	213	-
Travel	540	-	-	-
<b>Total Guidance</b>	<b>115,024</b>	<b>135,809</b>	<b>132,579</b>	<b>3,230</b>
Health:				
Salaries	46,310	47,310	47,309	1
FICA	3,545	3,621	3,619	2
Health Insurance	16,275	16,220	16,220	-
Retirement	8,210	8,384	8,328	56
Workers' Compensation	1,595	1,595	1,595	-
Travel	1,500	1,459	302	1,157
Other Supplies	1,500	1,500	485	1,015
<b>Total Health</b>	<b>78,935</b>	<b>80,089</b>	<b>77,858</b>	<b>2,231</b>

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Speech, Pathology & Audiology:				
Salaries	86,473	87,286	87,285	1
FICA	6,615	6,678	6,677	1
Health Insurance	20,093	19,950	19,948	2
Retirement	15,341	15,480	15,391	89
Travel	577	-	-	-
Workers' Compensation	197	197	197	-
Teaching Supplies	810	325	321	4
<b>Total Speech, Pathology &amp; Audiology</b>	<b>130,106</b>	<b>129,916</b>	<b>129,819</b>	<b>97</b>
Other Pupil Services:				
FICA	-	15	-	15
Retirement	-	34	-	34
Homebound Services	2,000	451	441	10
<b>Total Other Pupil Services</b>	<b>2,000</b>	<b>500</b>	<b>441</b>	<b>59</b>
Teacher Consultant:				
Salaries	61,198	62,449	62,448	1
FICA	4,682	4,778	4,777	1
Health Insurance	16,215	16,097	16,097	-
Retirement	10,857	11,074	10,874	200
Workers' Compensation	141	141	141	-
<b>Total Teacher Consultant</b>	<b>93,093</b>	<b>94,539</b>	<b>94,337</b>	<b>202</b>
<b>Total Support Services - Pupil</b>	<b>458,807</b>	<b>472,235</b>	<b>466,177</b>	<b>6,058</b>
Instructional Staff:				
Library:				
Salaries:				
Librarian	55,022	55,452	55,452	-
Clerks	81,179	73,909	73,908	1
Substitutes	2,978	1,895	1,853	42
Early Retirement	4,950	3,600	3,600	-
FICA	11,408	10,918	10,888	30
Health Insurance	42,850	34,989	34,987	2
Insurance Opt-out	5,000	7,503	7,503	-
Retirement	24,689	22,738	22,689	49
Books	8,456	8,511	8,506	5
Periodicals	2,529	1,542	1,526	16
Other Supplies	2,756	2,778	2,762	16
Audio Visual Supplies	2,052	1,595	1,575	20
Multimedia Supplies	2,052	1,201	1,061	140
Workers' Compensation	525	525	525	-
Travel	500	261	251	10
Maintenance	3,600	3,706	3,706	-
<b>Total Library</b>	<b>250,546</b>	<b>231,123</b>	<b>230,792</b>	<b>331</b>
2% Casino Funds:				
Salaries:				
Aides	-	2,000	1,403	597
FICA	-	179	133	46
Retirement	-	414	59	355
Ready Help Stipends	-	330	330	-
Travel	-	4,500	1,001	3,499
Purchased Services	-	325	325	-
Other Supplies	-	6,700	6,385	315
Capital Outlay	-	22,000	22,000	-
<b>Total 2% Casino Funds</b>	<b>-</b>	<b>36,448</b>	<b>31,636</b>	<b>4,812</b>
<b>Total Support Services - Instructional Staff</b>	<b>250,546</b>	<b>267,571</b>	<b>262,428</b>	<b>5,143</b>

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
General Administration:				
Board of Education:				
Purchased Services	10,000	12,600	12,516	84
Legal Services	30,000	35,655	34,160	1,495
Audit Services	9,600	10,620	10,620	-
Travel	2,430	865	753	112
Advertising:				
Board	4,000	2,500	1,915	585
Election Supplies	1,350	500	-	500
Election Inspectors	2,000	2,000	-	2,000
Dues & Fees	5,500	5,100	5,015	85
Miscellaneous	2,430	1,500	1,343	157
Total Board of Education	<u>67,310</u>	<u>71,340</u>	<u>66,322</u>	<u>5,018</u>
Executive Administration:				
Salaries:				
Superintendent	91,000	183,000	177,916	5,084
Secretary	36,670	38,300	38,277	23
Substitute Secretary	200	210	210	-
Early Retirement	1,800	1,800	1,800	-
FICA	9,920	15,915	15,915	-
Health Insurance	29,129	23,808	22,685	1,123
Retirement	22,684	7,017	7,016	1
Office Supplies	2,430	1,510	1,170	340
Board Paid Annuity	3,000	-	-	-
Workers' Compensation	376	376	376	-
Dues & Fees	1,800	975	975	-
Travel	6,120	1,494	1,392	102
Miscellaneous	1,620	200	156	44
Total Executive Administration	<u>206,749</u>	<u>274,605</u>	<u>267,888</u>	<u>6,717</u>
Total Support Services - General Administration	<u>274,059</u>	<u>345,945</u>	<u>334,210</u>	<u>11,735</u>
School Administration:				
Office of the Principals:				
Salaries:				
Assistant Principals	116,926	110,003	109,853	150
Building Principals	278,993	284,112	284,111	1
Elementary Secretary	53,608	53,523	53,523	-
Secondary Secretary	58,764	60,700	58,923	1,777
Substitute Secretaries	3,300	3,575	3,396	179
Early Retirement	6,450	5,250	5,250	-
FICA	35,942	35,191	35,056	135
Health Insurance	103,621	107,689	105,755	1,934
Insurance Opt-out	6,800	3,700	3,700	-
Retirement	81,000	79,950	77,764	2,186
Purchased Services	18,391	25,192	25,192	-
Office Supplies	5,356	610	595	15
Workers' Compensation	1,498	1,498	1,472	26
Dues & Fees	4,848	2,325	1,960	365
Travel	4,120	1,478	1,349	129
Other Supplies	10,775	897	840	57
Total Office of the Principals	<u>790,392</u>	<u>775,693</u>	<u>768,739</u>	<u>6,954</u>
Other School Administration:				
Director	68,777	69,346	69,346	-
FICA	5,261	5,306	5,305	1
Health Insurance	17,222	17,102	17,102	-
Retirement	12,201	12,290	12,142	148
Technology Supplies	21,600	16,155	14,937	1,218

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Workers' Compensation	156	156	156	-
Novell Licenses	4,350	4,140	4,140	-
Travel	1,125	1,127	683	444
Telephone Maintenance	1,000	555	555	-
Contracted Services	54,800	46,056	46,056	-
Other Supplies	9,720	9,713	9,713	-
<b>Total Other School Administration</b>	<b>196,212</b>	<b>181,946</b>	<b>180,135</b>	<b>1,811</b>
<b>Total Support Services - School Administration</b>	<b>986,604</b>	<b>957,639</b>	<b>948,874</b>	<b>8,765</b>
<b>Business:</b>				
<b>Fiscal Services:</b>				
<b>Salaries:</b>				
Business Manager	68,777	69,346	69,346	-
Assistant	40,284	40,944	40,551	393
FICA	8,343	8,564	8,564	-
Health Insurance	28,850	28,469	28,469	-
Retirement	19,348	19,638	18,936	702
Purchased Services	8,201	6,545	6,545	-
Repair & Maintenance	1,000	875	647	228
Office Supplies	1,800	1,625	1,624	1
Workers' Compensation	521	521	521	-
Dues & Fees	163	167	167	-
Travel	900	950	712	238
Other Supplies	1,800	1,244	1,244	-
<b>Total Fiscal Services</b>	<b>179,987</b>	<b>178,888</b>	<b>177,326</b>	<b>1,562</b>
<b>Other Business Services:</b>				
Workers Compensation				-
Unemployment Compensation				-
Other Insurance	3,216	3,358	3,358	-
Taxes Written Off	10,000	27,010	27,009	1
<b>Total Other Business Services</b>	<b>13,216</b>	<b>30,368</b>	<b>30,367</b>	<b>1</b>
<b>Total Support Services - Business</b>	<b>193,203</b>	<b>209,256</b>	<b>207,693</b>	<b>1,563</b>
<b>Operation &amp; Maintenance:</b>				
<b>Operation &amp; Maintenance of Plant:</b>				
<b>Salaries:</b>				
Building & Grounds Supervisor	45,803	47,484	47,484	-
Custodians	367,809	369,100	360,438	8,662
Laborers	16,380	15,155	15,154	1
Substitute Custodians	16,800	15,135	14,140	995
Overtime Custodians	800	-	-	-
FICA	34,837	35,775	34,950	825
Health Insurance	162,796	135,088	135,086	2
Insurance Opt-out	2,400	16,943	16,942	1
Retirement	79,172	76,792	75,088	1,704
Early Retirement	5,400	2,700	2,700	-
Postage & Mailing	11,400	8,730	8,503	227
Telephone	17,600	19,763	17,951	1,812
Rental	5,800	5,255	5,190	65
Natural Gas	230,000	188,751	187,626	1,125
Electricity	141,037	134,725	133,178	1,547
Waste & Trash Removal	9,800	10,200	9,935	265
Water & Sewage	22,885	17,845	17,397	448
Insurance - Vehicies	456	527	527	-
Insurance-Property & Liability	31,501	32,704	32,704	-
Repair & Maintenance	46,800	49,700	47,853	1,847
Snow Plowing	16,500	15,160	15,158	2

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Gas, Oil & Grease	1,500	1,500	1,458	42
Custodial Supplies	23,400	26,300	25,876	424
Maintenance Supplies	21,600	21,360	20,472	888
Workers' Compensation	11,579	11,579	11,579	-
Travel	3,600	125	113	12
Small Tools	900	900	529	371
<b>Total Support Services - Operation &amp; Maintenance</b>	<b>1,328,555</b>	<b>1,259,296</b>	<b>1,238,031</b>	<b>21,265</b>
<b>Pupil Transportation:</b>				
<b>Salaries:</b>				
Director	45,840	46,840	46,840	-
Mechanic	31,279	30,913	30,913	-
Drivers	222,736	225,217	225,214	3
Substitutes	12,000	9,000	8,249	751
Severance	-	15,610	15,609	1
Early Retirement	7,200	4,500	4,500	-
FICA	26,561	26,238	26,236	2
Health Insurance	65,277	75,445	74,605	840
Insurance Opt-out	28,150	26,200	26,200	-
Retirement	55,322	52,904	51,907	997
Workers' Compensation	7,216	7,086	7,086	-
Purchased Services	16,000	14,864	14,863	1
Other Supplies	2,500	270	26	244
Insurance - Vehicles	11,574	11,163	11,163	-
Repair & Maintenance	6,950	1,800	1,487	313
Gas, Oil & Grease	66,690	68,577	68,250	327
Towing	1,000	550	550	-
Tires, Tubes & Batteries	5,000	4,000	3,303	697
Vehicle Repair Parts	31,000	27,000	25,642	1,358
Travel	450	100	75	25
<b>Total Support Services - Pupil Transportation</b>	<b>642,745</b>	<b>648,277</b>	<b>642,718</b>	<b>5,559</b>
<b>Activities Office:</b>				
<b>Salaries:</b>				
Director	42,682	45,392	45,392	-
Secretary	26,804	26,557	26,557	-
Substitutes	600	300	263	37
FICA	5,362	5,525	5,524	1
Health Insurance	27,902	27,583	27,582	1
Retirement	12,432	12,683	12,533	150
Repair and Maintenance	895	500	486	14
Office Supplies	1,223	1,203	1,178	25
Dues & Fees	450	25	25	-
Other Supplies	360	180	176	4
<b>Total Activities Office</b>	<b>118,710</b>	<b>119,948</b>	<b>119,716</b>	<b>232</b>
<b>School Improvement:</b>				
<b>Staff/Personnel Services:</b>				
Other Supplies	8,000	5,850	5,112	738
<b>Outgoing Transfers:</b>				
ISD Contracted Services	70,760	68,469	68,469	-
Alternative Ed Students	-	18,579	18,579	-
ISD Special Education	22,626	21,420	21,420	-
<b>Total Outgoing Transfers</b>	<b>93,386</b>	<b>108,468</b>	<b>108,468</b>	<b>-</b>
<b>Capital Outlay:</b>				
Pupil Transportation	60,000	44,500	44,450	50

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Debt Service:				
Principal Retirement	21,593	21,593	21,593	-
Interest and Fiscal Charges	86,134	75,135	75,134	1
Total Debt Service	<u>107,727</u>	<u>96,728</u>	<u>96,727</u>	<u>1</u>
Total Support Services	<u>4,522,342</u>	<u>4,535,713</u>	<u>4,474,604</u>	<u>61,109</u>
TOTAL EXPENDITURES	<u>12,542,813</u>	<u>12,738,996</u>	<u>12,597,602</u>	<u>141,394</u>
EXCESS REVENUES (EXPENDITURES)	<u>171,170</u>	<u>(7,928)</u>	<u>98,982</u>	<u>106,910</u>
OTHER FINANCING SOURCES (USES);				
Interest Earned	54,500	75,000	80,374	5,374
Operating Transfers Out	<u>(212,731)</u>	<u>(186,496)</u>	<u>(186,496)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(158,231)</u>	<u>(111,496)</u>	<u>(106,122)</u>	<u>5,374</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	12,939	(119,424)	(7,140)	112,284
Fund Balance, Beginning of Year	<u>207,519</u>	<u>355,715</u>	<u>355,715</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 220,458</u>	<u>\$ 236,291</u>	<u>\$ 348,575</u>	<u>\$ 112,284</u>

GLADSTONE AREA SCHOOLS

BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND

For the year ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources:				
Property Tax Levy	<u>\$ 1,643,625</u>	<u>\$ 1,657,117</u>	<u>\$ 1,657,952</u>	<u>\$ 835</u>
EXPENDITURES:				
Debt Service:				
Principal	710,000	864,987	864,987	-
Interest and Fiscal Charges	<u>949,730</u>	<u>800,984</u>	<u>800,821</u>	<u>163</u>
TOTAL EXPENDITURES	<u>1,659,730</u>	<u>1,665,971</u>	<u>1,665,808</u>	<u>163</u>
EXCESS REVENUES (EXPENDITURES)	(16,105)	(8,854)	(7,856)	998
OTHER FINANCING SOURCES (USES):				
Interest Earned	<u>7,000</u>	<u>10,000</u>	<u>10,536</u>	<u>536</u>
NET CHANGE IN FUND BALANCES	(9,105)	1,146	2,680	1,534
Fund Balance, Beginning of Year	<u>316,270</u>	<u>319,762</u>	<u>319,762</u>	-
FUND BALANCE, END OF YEAR	<u>\$ 307,165</u>	<u>\$ 320,908</u>	<u>\$ 322,442</u>	<u>\$ 1,534</u>

**OTHER SUPPLEMENTAL INFORMATION**

**GLADSTONE AREA SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2007

	Nonmajor Special Revenue Funds			Nonmajor Capital Project Funds		Total Nonmajor Governmental Funds
	School Lunch	Athletic and Bookstore	Public Library	Technology	Major Maintenance	
<b>ASSETS:</b>						
Cash and Equivalents	\$ 25,365	\$ 2,838	\$ 49,948	\$ -	\$ -	\$ 78,151
Investments	-	-	-	12,939	96,085	109,024
Accounts Receivable	46,143	-	1,926	-	-	48,069
Inventory	13,270	-	-	-	-	13,270
<b>TOTAL ASSETS</b>	<b>\$ 84,778</b>	<b>\$ 2,838</b>	<b>\$ 51,874</b>	<b>\$ 12,939</b>	<b>\$ 96,085</b>	<b>\$ 248,514</b>
<b>LIABILITIES:</b>						
Accounts Payable	\$ 7,170	\$ 149	\$ 901	\$ -	\$ -	\$ 8,220
Deferred Revenue	9,625	-	-	-	-	9,625
Accrued Employee Benefits	4,966	-	1,854	-	-	6,820
Accrued Payroll	-	-	4,180	-	-	4,180
<b>TOTAL LIABILITIES</b>	<b>21,761</b>	<b>149</b>	<b>6,935</b>	<b>-</b>	<b>-</b>	<b>28,845</b>
<b>FUND BALANCES</b>						
Reserved:						
Reserved for Inventory	13,270	-	-	-	-	13,270
Unreserved:						
Undesignated	49,747	2,689	44,939	12,939	96,085	206,399
<b>TOTAL FUND BALANCES</b>	<b>63,017</b>	<b>2,689</b>	<b>44,939</b>	<b>12,939</b>	<b>96,085</b>	<b>219,669</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 84,778</b>	<b>\$ 2,838</b>	<b>\$ 51,874</b>	<b>\$ 12,939</b>	<b>\$ 96,085</b>	<b>\$ 248,514</b>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

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

For the year ended June 30, 2007

	<u>Nonmajor Special Revenue Funds</u>			<u>Nonmajor Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>School Lunch</u>	<u>Athletic and Bookstore</u>	<u>Public Library</u>	<u>Technology</u>	<u>Major Maintenance</u>	
REVENUES:						
Local Sources	\$ 232,871	\$ 46,401	\$ 107,959	\$ -	\$ -	\$ 387,231
State Sources	25,611	-	7,372	-	-	\$ 32,983
Federal Sources	203,712	-	-	-	-	203,712
Other	6,229	-	-	-	-	6,229
<b>TOTAL REVENUES</b>	<b>468,423</b>	<b>46,401</b>	<b>115,331</b>	<b>-</b>	<b>-</b>	<b>630,155</b>
EXPENDITURES:						
Support Services - Pupil:						
Food Services	461,311	-	-	-	-	461,311
Athletics & Bookstore	-	189,137	-	-	-	189,137
<b>Total Support Services - Pupil</b>	<b>461,311</b>	<b>189,137</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650,448</b>
Community Services:						
Library	-	-	110,663	-	-	110,663
Capital Outlay	-	-	-	15,422	139,428	154,850
<b>TOTAL EXPENDITURES</b>	<b>461,311</b>	<b>189,137</b>	<b>110,663</b>	<b>15,422</b>	<b>139,428</b>	<b>915,961</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>7,112</b>	<b>(142,736)</b>	<b>4,668</b>	<b>(15,422)</b>	<b>(139,428)</b>	<b>(285,806)</b>
OTHER FINANCING SOURCES:						
Interest Earned	1,114	234	694	518	10,587	13,147
Operating Transfers In	16,413	134,511	-	17,786	17,786	186,496
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>17,527</b>	<b>134,745</b>	<b>694</b>	<b>18,304</b>	<b>28,373</b>	<b>199,643</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>24,639</b>	<b>(7,991)</b>	<b>5,362</b>	<b>2,882</b>	<b>(111,055)</b>	<b>(86,163)</b>
Fund Balances, Beginning of Year	38,378	10,680	39,577	10,057	207,140	305,832
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 63,017</b>	<b>\$ 2,689</b>	<b>\$ 44,939</b>	<b>\$ 12,939</b>	<b>\$ 96,085</b>	<b>\$ 219,669</b>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF NET ASSETS  
PRIVATE PURPOSE TRUSTS**

June 30, 2007

	<u>Health Services</u>	<u>Scholarship</u>	<u>Totals</u>
ASSETS:			
Cash and Equivalents	\$ 547	\$ 10,479	\$ 11,026
Accounts Receivable	-	12,850	12,850
TOTAL ASSETS	<u>\$ 547</u>	<u>\$ 23,329</u>	<u>\$ 23,876</u>
LIABILITIES:			
Scholarships Payable	<u>\$ -</u>	<u>\$ 16,825</u>	<u>\$ 16,825</u>
NET ASSETS:			
Reserved for Scholarships	\$ -	\$ 6,504	\$ 6,504
Unreserved	547	-	547
TOTAL NET ASSETS	<u>\$ 547</u>	<u>\$ 6,504</u>	<u>\$ 7,051</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUSTS**

For the year ended June 30, 2007

	Health Services	Scholarship	Totals
ADDITIONS:			
Gifts and Contributions	\$ 3,471	\$ 15,323	\$ 18,794
Interest Earned	-	85	85
 TOTAL ADDITIONS	 3,471	 15,408	 18,879
DEDUCTIONS:			
Scholarships Awarded	-	17,075	17,075
Miscellaneous	5,988	-	5,988
 TOTAL DEDUCTIONS	 5,988	 17,075	 23,063
 CHANGE IN NET ASSETS	 (2,517)	 (1,667)	 (4,184)
 Net Assets, Beginning of Year	 3,064	 8,171	 11,235
 NET ASSETS, END OF YEAR	 \$ 547	 \$ 6,504	 \$ 7,051

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES  
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2007

	<u>Balances 6/30/2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances 6/30/2007</u>
<u>MIDDLE SCHOOL STUDENT COUNCIL</u>				
ASSETS:				
Cash in Bank	\$ 19,709	\$ 32,283	\$ 32,644	\$ 19,348
LIABILITIES:				
Due to Student Groups:				
NJHS	\$ -	\$ 483	\$ 469	\$ 14
Music	512	10,319	10,199	632
Student Council	17,252	16,376	19,466	14,162
Athletics	145	5,105	2,510	2,740
Washington D.C.	1,800	-	-	1,800
TOTAL LIABILITIES	<u>\$ 19,709</u>	<u>\$ 32,283</u>	<u>\$ 32,644</u>	<u>\$ 19,348</u>
 <u>HIGH SCHOOL ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	\$ 72,591	\$ 91,797	\$ 101,052	\$ 63,336
LIABILITIES:				
Due to Student Groups				
Class of 2006	2,383	-	2,383	-
Class of 2007	7,745	4,409	9,366	2,788
Class of 2008	2,541	7,078	6,888	2,731
Class of 2009	1,575	3,589	423	4,741
Class of 2010	-	2,091	287	1,804
Building Use	1,221	3,611	3,283	1,549
Business Club	901	83	970	14
Creative Arts Club	818	234	25	1,027
Drama Club	4,093	2,866	1,545	5,414
French Club	2,241	4,135	5,575	801
Smith Scholarship	793	-	-	793
Industrial Arts Project	2,267	2,199	856	3,610
Key Club	1,353	3,441	3,160	1,634
Music	8,546	10,189	13,390	5,345
Natural Helpers	2,248	311	2,181	378
National Honor Society	163	2,870	2,925	108
Quill and Scroll	918	-	250	668
S.A.D.D.	390	-	-	390
Senior Magazine	340	1,831	1,425	746
Spanish Club	2,134	7,415	9,033	516
Weight Room	959	128	551	536
Student Activities	11,226	15,015	15,117	11,124
Student Council	1,077	3,968	3,878	1,167
Yearbook	16,015	11,558	14,391	13,182

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES  
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2007

	Balances 6/30/2006	Additions	Deductions	Balances 6/30/2007
Driver Education	\$ -	\$ 950	\$ 692	\$ 258
Photo Club	-	2,367	1,000	1,367
Youth in Government	-	1,459	1,302	157
John Hansen Scholarship	\$ 644	\$ -	\$ 156	\$ 488
<b>TOTAL LIABILITIES</b>	<u>\$ 72,591</u>	<u>\$ 91,797</u>	<u>\$ 101,052</u>	<u>\$ 63,336</u>

JAMES T. JONES ACTIVITY FUND

<b>ASSETS:</b>				
Cash in Bank	<u>\$ 7,955</u>	<u>\$ 9,891</u>	<u>\$ 9,106</u>	<u>\$ 8,740</u>
<b>LIABILITIES:</b>				
Due to Student Groups	<u>\$ 7,955</u>	<u>\$ 9,891</u>	<u>\$ 9,106</u>	<u>\$ 8,740</u>

VOCATIONAL ACTIVITY FUND

<b>ASSETS:</b>				
Cash in Bank	<u>\$ 852</u>	<u>\$ 514</u>	<u>\$ 657</u>	<u>\$ 709</u>
<b>LIABILITIES:</b>				
Due to Student Groups	<u>\$ 852</u>	<u>\$ 514</u>	<u>\$ 657</u>	<u>\$ 709</u>

TOTAL - ALL AGENCY FUNDS

<b>ASSETS:</b>				
Cash in Bank	<u>\$ 101,107</u>	<u>\$ 134,485</u>	<u>\$ 143,459</u>	<u>\$ 92,133</u>
<b>LIABILITIES:</b>				
Due to Student Groups	<u>\$ 101,107</u>	<u>\$ 134,485</u>	<u>\$ 143,459</u>	<u>\$ 92,133</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**SCHEDULE OF TAXABLE VALUATIONS,  
TAX RATES AND TAX LEVIES**

June 30, 2007

	<u>Taxable Valuation</u>	<u>Per \$1,000 Valuation</u>	<u>Tax Levy</u>
GENERAL FUND:			
(on Non-Homestead taxable valuation only)			
City of Gladstone	\$ 23,646,159	18.0	\$ 425,631
Escanaba Township	13,392,122	18.0	241,058
Brampton Township	<u>3,917,383</u>	<u>18.0</u>	<u>70,513</u>
TOTALS	<u>\$ 40,955,664</u>	<u>18.0</u>	<u>\$ 737,202</u>
DEBT RETIREMENT FUNDS:			
(on total taxable valuation)			
City of Gladstone	\$ 88,710,900	8.56	\$ 759,365
Escanaba Township	83,870,650	8.56	717,933
Brampton Township	<u>19,489,722</u>	<u>8.56</u>	<u>166,832</u>
TOTALS	<u>\$ 192,071,272</u>	<u>8.56</u>	<u>\$ 1,644,130</u>

See accompanying notes to financial statements.

**COMPLIANCE SECTION**



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, 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  
Gladstone Area Schools  
Gladstone, Michigan 49837

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, Gladstone, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Gladstone Area Schools' basic financial statements and have issued our report thereon dated October 8, 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 the Gladstone 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 Gladstone Area Schools' 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 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 Gladstone Area Schools' ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the Gladstone Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Districts' internal control.

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

However, we noted certain matters that we reported to the management of the Gladstone Area Schools in a separate letter dated October 8, 2007.

This report is intended solely for the information and use of the School Board, management, state 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.

*Anderson, Tackman & Company P.C.*  
Certified Public Accountants

October 8, 2007



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

## REPORT TO MANAGEMENT

Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

### **Audit Committee Communications**

We have audited the financial statements of Gladstone Area Schools for the year ended June 30, 2007, and have issued our reports thereon dated October 8, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 16, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Gladstone Area Schools. Management has the responsibility for adopting sound accounting policies for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the school district's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies

Management has the responsibility for the selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and

their application. The significant accounting policies used by the Gladstone Area Schools are described in Note A of the financial statements. No new accounting policies were adopted and the applications of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Gladstone 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.

#### Management Judgments and Accounting Estimates

Some accounting estimates are utilized in 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. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute or test the estimates. The most sensitive estimate affecting the financial statements was the determination of useful lives on fixed assets. These estimates are based on use history for similar type assets.

#### Significant Audit Adjustments

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

#### Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter 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.

#### Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention as Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

**Comments and Suggestions**

In planning and performing our audit of the financial statements of the Gladstone Area Schools for the year ended June 30, 2007, we considered the School's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 8, 2007, on the financial statements of the Gladstone Area Schools.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the School Board, the management of the District and state and federal agencies and is not intended and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

October 8, 2007

## GLADSTONE AREA SCHOOLS

### COMMENTS AND RECOMMENDATIONS

June 30, 2007

#### TAX INCREMENT FINANCING PLAN REPORT

During the audit we noted that step five, line 25 of form 2604 listing the captured assessed values does not match the value reported by the county to the Michigan Department of Education. As required by the Michigan School Auditing Manual we are reporting that discrepancy in this letter.

#### DRIVERS EDUCATION RECEIPTS

We noted during our testing of the receipt system that a departmental receipt chosen from the Drivers Ed program did not have detail supporting the amount of the deposit. This was due to the fact that the department did not obtain its own receipt book after the previous one was used up. We recommend that the Drivers Ed department keep sufficient receipt detail to indicate the makeup of a deposit and to be able to track billing information to be certain that all participants have paid the appropriate fee.

#### HIGH SCHOOL TRUST AND AGENCY FUND

During the audit we noted that there were five outstanding checks in the High School Trust & Agency Fund that are over a year old. These outstanding checks should be followed up on and escheated to the state, if appropriate.