



# WEINLANDER FITZHUGH

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CLARE PUBLIC SCHOOLS  
CLARE, MICHIGAN

FINANCIAL STATEMENT  
JUNE 30, 2007

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## Independent Auditors' Report

September 20, 2007

To the Board of Education  
Clare Public Schools  
Clare, Michigan

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

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Clare Public Schools as of June 30, 2007 and the respective changes in financial position, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

To the Board of Education  
Clare Public Schools  
September 20, 2007  
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 20, 2007, on our consideration of the School District's internal control over financial reporting and our tests of 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplemental information required by the U.S. generally accepted accounting principles and Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental 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 Clare Public School's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Weinlander Fitzhugh*

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

Our discussion and analysis of the Clare School District's (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2007.

**Financial Highlights**

The School District's net assets increased \$145,705 or 2%. Program revenues accounted for \$1.8 million or 13% of total revenues and general revenues accounted for \$11.6 million or 87%.

The General Fund reported a positive fund balance in excess of \$1.6 million.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Clare Public Schools 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 longer-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 district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Debt Service 2001 Issue Fund and Debt Service 2001 QZAB Issue Fund, with all other funds presented in one column as non-major 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 library activities. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

CLARE PUBLIC SCHOOLS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

**Reporting the District as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of School District.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds and library funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**District-wide Financial Analysis**

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2007 and 2006:

	Governmental Activities	
<b>Exhibit A</b>	2007	2006
<b>Assets</b>		
Current and other assets	\$ 5,600,000	\$ 4,900,000
Capital assets - net of accumulated depreciation	14,700,000	15,300,000
Total assets	20,300,000	20,200,000
<b>Liabilities</b>		
Current liabilities	2,600,000	2,800,000
Long-term liabilities	11,100,000	10,900,000
Total liabilities	13,700,000	13,700,000
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	3,800,000	4,100,000
Restricted	1,500,000	1,300,000
Unrestricted	1,300,000	1,100,000
Total net assets	\$ 6,600,000	\$ 6,500,000

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

The preceding table focuses on net assets (see Exhibit A). The School District's net assets were \$6,600,000 at June 30, 2007. Capital assets, net of related debt totaling \$3,800,000, compares the original costs, 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 are reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use those net assets for day-to-day operations.

The \$1,300,000 in unrestricted net assets of governmental activities 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.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net assets for the years ended June 30, 2007 and 2006.

<b>Exhibit B</b>	Governmental Activities	
	<u>2007</u>	<u>2006</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 400,000	\$ 400,000
Grants and categoricals	1,400,000	1,700,000
General revenue:		
Property taxes	2,300,000	2,200,000
State foundation allowance	9,100,000	9,100,000
Other	200,000	300,000
Total revenue	<u>13,400,000</u>	<u>13,700,000</u>
<b>Function/Program Expenses</b>		
Instruction	7,600,000	7,900,000
Support services	3,900,000	4,200,000
Community services	100,000	100,000
Food services	400,000	500,000
Athletics	200,000	200,000
Interest on long-term debt	400,000	400,000
Depreciation and amortization (unallocated)	700,000	600,000
Total expenses	<u>13,300,000</u>	<u>13,900,000</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 100,000</u>	<u>\$ (200,000)</u>

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$13.3 million. Certain activities were partially funded from those who benefited from the programs (\$400,000) or by the other governments and organizations that subsidized certain programs with grants and categorical (\$1.4 million). We paid for the remaining “public benefit” portion of our governmental activities with \$2.3 million in taxes, \$9.1 million in State Foundation Allowance and with our other revenues, such as interest and general entitlements.

The School District experienced a increase in net assets of \$145,705. The key reason for the change in net assets were cuts in payroll and payroll related items including retirement and insurance. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

**The School District's Funds**

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$3.1 million, which is above last year's total of \$2.6 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)
General	\$ 1,623,660	\$ 1,215,518	\$ 408,142
Special Revenue	94,122	76,484	17,638
Debt Service	1,414,434	1,234,946	179,488
Capital Projects	15,553	47,648	(32,095)
Total	\$ 3,147,769	\$ 2,574,596	\$ 573,173

The School District completed this year with a combined fund balance increase of \$573,173 from the previous year.

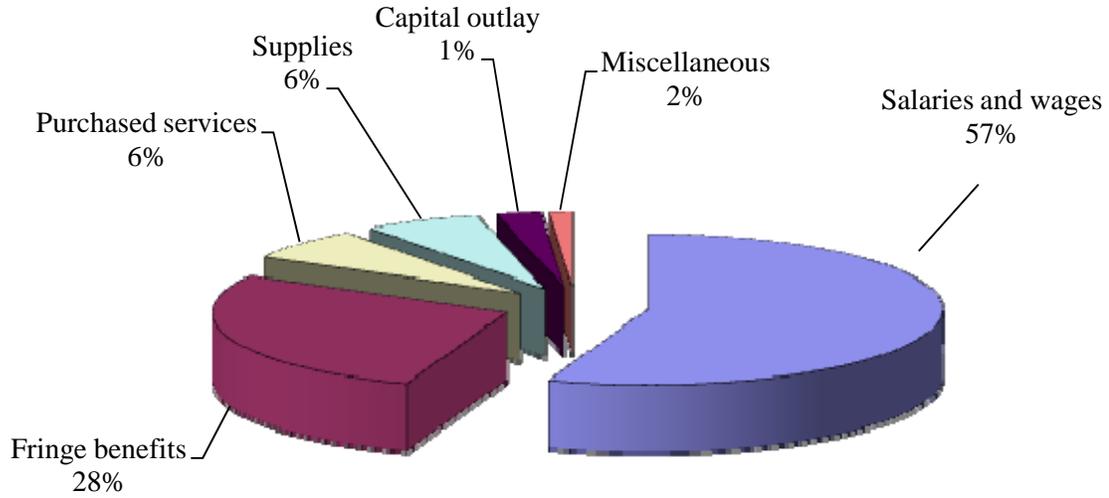
- The General Fund balance increased by \$408,142 due to lower personnel costs, including the effects of an early retirement incentive and personnel reduction. Overall, the General Fund activity was within 97.8 percent of budgeted revenues and expenditures.

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

- Our Capital Projects Funds' balances decreased by \$32,095. This decrease was the result of completing the athletic track resurfacing project.
- Our Debt Service Funds' balances increased by \$179,488. This increase was due to the accumulation of required payments for future payments on the QZAB debt service.
- Our Special Revenue Funds maintained their services while showing a current year increase of \$17,638 from operations.

**CLARE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2007

As the graph below illustrates, the largest portions of General Fund expenditures (excluding fund transfers) are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



<i>Expenditures by object</i>	<u>2007</u>	<u>2006</u>
Salaries and wages	\$ 6,574,778	\$ 6,917,649
Fringe benefits	3,218,992	3,440,756
Purchased services	702,028	848,251
Supplies	710,051	798,933
Capital outlay	113,745	296,520
Miscellaneous	117,840	162,165
Total	<u>\$ 11,437,434</u>	<u>\$ 12,464,274</u>

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

Expenditures (not including transfers) are down \$1,026,840 or 8% mainly due to a reduction in the cost of salaries and benefits (\$564,635), and general small decreases in all areas of spending.

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Final budgeted revenues were \$87,576 under the original budget, due to a \$114,769 increase in property tax revenue, a \$160,429 decrease in State Aid, and a decrease in federal revenue of \$41,916.
- The actual revenues were \$30,762 higher than the final budgeted revenues. This was mainly due to an August, 2007 adjustment in State Aid for property tax value changes.
- Final budgeted expenditures were \$201,871 under the original budget, due to lower than expected heating costs, and other small adjustments throughout the budget.
- The actual expenditures were \$266,924 lower than the final budgeted expenditures. This was mainly due to not expending all of the utility and equipment budgets, as well as other small variances throughout the budget.

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

**Capital Assets**

At June 30, 2007, the School District had \$14.7 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$582,128 a 4% decrease from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ 298,976	\$ 298,976
Buildings and improvements	15,803,948	15,803,968
Buses and other vehicles	689,527	726,027
Furniture and equipment	<u>6,380,418</u>	<u>6,341,459</u>
 Total capital assets	 23,172,869	 23,170,430
 Less accumulated depreciation	 <u>8,494,725</u>	 <u>7,910,158</u>
 Net capital assets	 <u><u>\$ 14,678,144</u></u>	 <u><u>\$ 15,260,272</u></u>

This year's additions included a tractor, new software and an alarm system at the middle school. We present more detailed information about our capital assets in the notes to the financial statements.

**Debt**

At the end of this year, the School District had \$10,960,761 in bonds outstanding versus \$11,070,761 in the previous year – a decrease of 1%. The decrease reflects principal payments made on the 2001 revenue bond and the 2006 refunding bond.

	<u>2007</u>	<u>2006</u>
2006 Refunding Bonds	\$ 6,680,000	\$ 0
2001 Revenue Bonds	1,290,000	8,080,000
2001 QZAB Bonds	2,760,000	2,760,000
2002 QZAB Bonds	147,160	147,160
Durant Bonds	<u>83,601</u>	<u>83,601</u>
	<u><u>\$ 10,960,761</u></u>	<u><u>\$ 11,070,761</u></u>

**CLARE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

**Factors Expected to have an Effect on Future Operations**

Our elected Board and administration consider many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-08 school year, we anticipate that the fall student count will approximately equal the estimates used in creating the 2008 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

All of our employee groups contracts ended June 30, 2007. Negotiations are taking place at this time, the financial impact of which cannot be currently determined.

**Requests For Information**

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

Office of the Superintendent  
Clare Public School District  
201 East State Street  
Clare, Michigan 48617

CLARE PUBLIC SCHOOLS  
Statement of Net Assets  
June 30, 2007

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 3,681,321
Receivables:	
Accounts receivable	3,779
Due from other governmental units	1,749,739
Inventories	6,979
Prepaid expenses	77,544
Deposits	51,530
Capital assets less accumulated depreciation of \$8,494,725	14,678,164
Bond issuance costs less accumulated amortization of \$17,250	51,749
	20,300,805
Total assets	20,300,805
<u>Liabilities</u>	
Accounts payable	221,873
State aid note payable	1,600,000
Accrued payroll and other liabilities	601,249
Accrued interest payable	70,712
Bond issuance premium less accumulated amortization of \$25,376	85,130
Long-term liabilities:	
Due within one year	504,939
Due in more than one year	10,618,826
Total liabilities	13,702,729
<u>Net Assets</u>	
Investment in capital assets - net of related debt	3,779,072
Restricted for debt service	1,438,961
Restricted for capital projects	15,553
Unrestricted	1,364,490
	6,598,076
Total net assets	\$ 6,598,076

See accompanying notes to financial statements



CLARE PUBLIC SCHOOLS  
Governmental Funds  
Balance Sheet  
June 30, 2007

	<u>General</u>	<u>Debt Service 2001 Issue</u>	<u>Debt Service 2001 QZAB Issue</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments	\$ 2,208,070	\$ 211,058	\$ 1,123,482	\$ 138,711	\$ 3,681,321
Receivables:					
Accounts receivable	3,689	0	0	90	3,779
Due from other governmental units	1,745,709	0	0	4,030	1,749,739
Inventories	0	0	0	6,979	6,979
Prepaid expenditures	75,969	0	0	1,575	77,544
Deposits	9,530	0	0	42,000	51,530
<b>Total Assets</b>	<b><u>\$ 4,042,967</u></b>	<b><u>\$ 211,058</u></b>	<b><u>\$ 1,123,482</u></b>	<b><u>\$ 193,385</u></b>	<b><u>\$ 5,570,892</u></b>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 218,884	\$ 0	\$ 0	\$ 2,989	\$ 221,873
State aid note payable	1,600,000	0	0	0	1,600,000
Accrued payroll and other liabilities	526,671	0	0	0	526,671
Deferred revenue	10,895	0	0	826	11,721
Due to other governmental units	62,857	0	0	0	62,857
<b>Total liabilities</b>	<b><u>2,419,307</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>3,815</u></b>	<b><u>2,423,122</u></b>
<u>Fund Balance</u>					
Reserved for inventories and prepaid expenditures	75,969	0	0	8,554	84,523
Reserved for debt service	0	211,058	1,123,482	104,421	1,438,961
Reserved for capital projects	0	0	0	15,553	15,553
Unreserved:					
Undesignated	1,547,691	0	0	61,042	1,608,733
<b>Total fund balance</b>	<b><u>1,623,660</u></b>	<b><u>211,058</u></b>	<b><u>1,123,482</u></b>	<b><u>189,570</u></b>	<b><u>3,147,770</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 4,042,967</u></b>	<b><u>\$ 211,058</u></b>	<b><u>\$ 1,123,482</u></b>	<b><u>\$ 193,385</u></b>	<b><u>\$ 5,570,892</u></b>

See accompanying notes to financial statements

CLARE PUBLIC SCHOOLS  
 Reconciliation of Balance Sheet of Governmental Funds  
 to the Statement of Net Assets  
June 30, 2007

Total fund balance - governmental funds	\$3,147,770
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 are not reported in the funds	
Cost of the capital assets	23,172,889
Accumulated depreciation	(8,494,725)
Bond issuance costs	68,999
Accumulated amortization	(17,250)
Bond issuance premium	(110,506)
Accumulated amortization	25,376
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds and notes payable	(10,828,380)
Early retirement incentive	(105,000)
Compensated absences	(190,385)
Accrued interest payable is not included as a liability in governmental activities	<u>(70,712)</u>
Total net assets - governmental activities	<u><u>\$6,598,076</u></u>

See accompanying notes to financial statements

**CLARE PUBLIC SCHOOLS**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2007**

	General	Debt Service 2001 Issue	Debt Service 2001 QZAB Issue	Other Nonmajor Governmental Funds	Totals
<b><u>Revenues</u></b>					
Local sources:					
Property taxes	\$ 1,450,852	\$ 624,963	\$ 187,407	\$ 0	\$ 2,263,222
Other	449,022	12,726	32,319	306,641	800,708
State sources	9,679,485	0	0	28,493	9,707,978
Federal sources	456,661	0	0	194,517	651,178
Total revenues	<u>12,036,020</u>	<u>637,689</u>	<u>219,726</u>	<u>529,651</u>	<u>13,423,086</u>
<b><u>Expenditures</u></b>					
Current:					
Instruction	7,471,961	0	0	0	7,471,961
Support services	3,817,734	0	0	0	3,817,734
Community services	26,501	0	0	0	26,501
Capital outlay	118,257	0	0	34,034	152,291
Food services	0	0	0	446,606	446,606
Athletics	0	0	0	251,470	251,470
Debt service:					
Principal	0	285,000	0	0	285,000
Interest and other	0	361,594	662	0	362,256
Total expenditures	<u>11,434,453</u>	<u>646,594</u>	<u>662</u>	<u>732,110</u>	<u>12,813,819</u>
Excess (deficiency) of revenues over expenditures	<u>601,567</u>	<u>(8,905)</u>	<u>219,064</u>	<u>(202,459)</u>	<u>609,267</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Proceeds from issuance of refunding bonds	0	6,790,506	0	0	6,790,506
Payment to refunded bond escrow agent	0	(6,721,507)	0	0	(6,721,507)
Underwriter discount	0	(35,070)	0	0	(35,070)
Bond issuance costs	0	(67,041)	0	0	(67,041)
Operating transfers in from other funds	0	0	0	190,444	190,444
Transfers to other governmental units	(2,981)	0	0	0	(2,981)
Operating transfers out to other funds	(190,444)	0	0	0	(190,444)
Total other financing sources (uses)	<u>(193,425)</u>	<u>(33,112)</u>	<u>0</u>	<u>190,444</u>	<u>(36,093)</u>
Net change in fund balance	408,142	(42,017)	219,064	(12,015)	573,174
Fund balance - beginning of year	<u>1,215,518</u>	<u>253,075</u>	<u>904,418</u>	<u>201,585</u>	<u>2,574,596</u>
Fund balance - end of year	<u>\$ 1,623,660</u>	<u>\$ 211,058</u>	<u>\$ 1,123,482</u>	<u>\$ 189,570</u>	<u>\$ 3,147,770</u>

See accompanying notes to financial statements

CLARE PUBLIC SCHOOLS  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2007

Net change in fund balance - total governmental funds	\$	573,174
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report proceeds from sales of assets as revenue; in the statement of activities, only the <i>loss</i> from the sale is reported		(13,737)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Amortization expense	(46,001)	
Depreciation expense	(626,063)	
Capital outlay	57,692	(614,372)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Other costs related to debt issuance and retirement use governmental fund resources but recognize them as expenses through amortization on the statement of net assets		
Bond proceeds	\$ (6,790,506)	
Deferred amount on refunding	216,507	
Bond issuance costs and fees	68,999	
Repayment of bonds	6,505,000	0
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		4,263
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		291,292
Early retirement incentives are recorded in the statement of activities when incurred; they are not reported in the governmental funds until paid		(105,000)
Increases in compensated absences are reported as an increase in expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6		10,085
Change in net assets of governmental activities	\$	145,705

See accompanying notes to financial statements

CLARE PUBLIC SCHOOLS  
 Fiduciary Funds  
 Statement of Fiduciary Net Assets  
June 30, 2007

	Agency Funds	Private Purpose Trusts
<u>ASSETS</u>		
Cash and investments	\$ 183,611	\$ 25,000
 <u>LIABILITIES</u>		
Due to student groups	\$ 183,611	\$ 0
 <u>NET ASSETS</u>		
Held in Trust for library		\$ 25,000

See accompanying notes to financial statements

CLARE PUBLIC SCHOOLS  
 Fiduciary Funds  
 Statement of Changes Fiduciary Net Assets  
For the Year Ended June 30, 2007

	Private Purpose Trusts
<u>Additions</u>	\$ 0
<u>Deductions</u>	0
Change in net assets	0
Net assets - beginning of year	25,000
Net assets - ending of year	\$ 25,000

See accompanying notes to financial statements

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Clare Public Schools (the “School District”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide and Fund Financial Statements**

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

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

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

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

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

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

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

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

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The School District reports the following major governmental fund:

**General Fund** – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

**Inventories and Prepaid Items** – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

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

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Buildings and improvements	50 years
Buses and other vehicles	7 years
Furniture and equipment	5-20 years

**Bond Issuance Costs and Premiums** – Bond issuance costs and premiums are reflected only in the district-wide financial statements and are being amortized over a twelve-year period. Accumulated amortization at June 30, 2007, is \$17,250 and \$25,376 for bond issuance costs and premiums, respectively.

**Compensated Absences** – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Property Taxes** – For Clare Public Schools taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**CLARE PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**State Aid** – For the fiscal year ended June 30, 2007, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts.

For the year ended June 30, 2007, the foundation allowance was based on the average pupil membership counts taken in February and 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 which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2006 – August 2007. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2007 (included in due from other governmental units) relating to state aid is \$1,661,021.

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

**NOTE 2 – BUDGETS**

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

Clare Public Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 2 – BUDGETS (CONTINUED)**

2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

During the year ended June 30, 2007, the School District recognized revenues in certain budgetary funds which were under the amounts estimated to be earned as follows:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Amount of Revenues</u>	<u>Budget Variance</u>
General Fund:			
State sources	\$ 9,788,998	\$ 9,679,485	\$ 109,513
Federal sources	467,692	456,661	11,031
Athletic Activity Fund	245,393	235,845	9,548
Food Services Fund	457,025	455,342	1,683

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

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
School administration	\$ 707,775	\$ 712,901	\$ 5,126
Central Services	12,465	12,903	438

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 3 – DEPOSITS AND INVESTMENTS**

State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District’s deposits are in accordance with statutory authority.

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 3,681,321	\$ 208,611	\$ 3,889,932

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 2,585,301
Investments in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity not to exceed 60 days	1,303,829
Petty cash and cash on hand	802
Total	\$ 3,889,932

**Interest Rate Risk**

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

**Credit Risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**CLARE PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2007

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

As of June 30, 2007, the School District's investment in the investment pool was rated AAAM by Standard & Poor's.

**Custodial Credit Risk- Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$2,426,562 of the School District's bank balance of \$2,626,562 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE 4 – CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 298,976	\$ 0	\$ 0	\$ 298,976
Capital assets being depreciated:				
Buildings and improvements	15,803,968	0	0	15,803,968
Buses and other vehicles	726,027	0	(36,500)	689,527
Furniture and equipment	6,341,459	57,692	(18,733)	6,380,418
Subtotal	22,871,454	57,692	(55,233)	22,873,913
Accumulated depreciation:				
Buildings and improvements	3,653,797	283,059	0	3,936,856
Buses and other vehicles	457,989	323,317	(36,500)	744,806
Furniture and equipment	3,798,372	19,687	(4,996)	3,813,063
Subtotal	7,910,158	626,063	(41,496)	8,494,725
Net capital assets being depreciated	14,961,296	(568,371)	(13,737)	14,379,188
Net capital assets	<u>\$ 15,260,272</u>	<u>\$ (568,371)</u>	<u>\$ (13,737)</u>	<u>\$ 14,678,164</u>

Depreciation for fiscal year ended June 30, 2007 amounted to \$626,063. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 5 – INTERFUND TRANSFERS**

A summary of inter-fund receivable and payable balances at June 30, 2007 and transfers made during the year ended June 30, 2007 follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 190,444
Special Revenue:		
Food Service	24,527	0
Athletics	<u>165,917</u>	<u>0</u>
	<u>\$ 190,444</u>	<u>\$ 190,444</u>

There were no interfund receivable or payable balances remaining as of June 30, 2007.

Transfers were used to (1) supplement athletic operational costs and (2) reimburse for portion of overhead costs.

**CLARE PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2007

**NOTE 6 – LONG-TERM DEBT**

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

	Balance July 1, 2006	Additions	Retirements and Payments	Balance June 30, 2007	Amount Due Within One Year
Bond and notes payable:					
General obligation debt	\$ 11,070,761	\$ 6,680,000	\$ 6,790,000	\$ 10,960,761	\$ 393,580
Special assessments:					
US 27	10,504	0	3,427	7,077	3,494
Woodlawn	25,787	0	2,865	22,922	2,865
	<u>11,107,052</u>	<u>6,680,000</u>	<u>6,796,292</u>	<u>10,990,760</u>	<u>399,939</u>
Less deferred amount on refunding	<u>0</u>	<u>(216,507)</u>	<u>54,127</u>	<u>(162,380)</u>	<u>0</u>
Total bonds and notes payable	<u>11,107,052</u>	<u>6,463,493</u>	<u>6,850,419</u>	<u>10,828,380</u>	<u>399,939</u>
Other liabilities:					
Early retirement incentive	0	210,000	105,000	105,000	105,000
Compensated absences	<u>200,470</u>	<u>0</u>	<u>10,085</u>	<u>190,385</u>	<u>0</u>
Total other liabilities	<u>200,470</u>	<u>210,000</u>	<u>115,085</u>	<u>295,385</u>	<u>105,000</u>
Total long-term liabilities	<u>\$ 11,307,522</u>	<u>\$ 6,673,493</u>	<u>\$ 6,965,504</u>	<u>\$ 11,123,765</u>	<u>\$ 504,939</u>

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

Bonds payable at June 30, 2007 is comprised of the following issues:

\$1,575,000 revenue serial bonds due in annual installments of \$285,000 to \$345,000 through May 1, 2011; interest at 4.25% to 4.375%	\$ 1,290,000
\$6,680,000 refunding serial bonds due in annual installments of \$20,000 to \$455,000 through May 1, 2026; interest at 4.00%	6,680,000
\$2,760,000 QZAB bonds due in three installments of \$900,000 to \$930,000 from May 1, 2013 through May 1, 2015; interest at 0%	2,760,000
\$147,160 QZAB bonds due in four installments of \$25,280 to \$48,300 from October 1, 2007 through December 1, 2008; interest at 0%	147,160
\$90,454 Durant Non-Plaintiff serial bonds due in annual installments of \$48,150 to \$6,853 through May 15, 2013; interest at 4.76%	<u>83,601</u>
Total Bonded Debt	<u><u>\$ 10,960,761</u></u>

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described in the preceding paragraph.

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

The US 27 Special Assessment Debt was assessed for water and sewer services for property owned by the School District. Principal of \$3,427 to \$3,584 is due each August 28<sup>th</sup> through 2008 plus interest of 6.654% to 8.2%.

The Woodlawn Special Assessment Debt was assessed for sewer services to property owned by the School District. Principal is due each August 28<sup>th</sup> through 2014 in the amount of \$2,865 plus interest at 6.3864%.

Compensated absences (unused sick pay) is calculated using the termination payoff rate of \$40 for eligible employees times the number of unused days (maximum 155 days). At June 30, 2007, the amount of \$190,385 has been reflected in the District-wide Financial statements.

The School District has entered into an early retirement incentive program. For each eligible and participating employee, the School District will make a non-elective contribution to an established 403(b) plan over a two year period in an amount not to exceed \$30,000. At June 30, 2007, the amount outstanding was \$105,000.

The annual requirements to amortize bonds, mortgages and special assessments outstanding as of June 30, 2007 including interest payments are as follows:

Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 399,939	\$ 333,416	\$ 733,355
2009	463,177	337,907	801,084
2010	361,120	306,317	667,437
2011	376,513	290,504	667,017
2012	391,924	274,015	665,939
2013-2017	4,913,087	1,101,850	6,014,937
2018-2022	2,265,000	636,400	2,901,400
2023-2026	1,820,000	182,000	2,002,000
	<u>\$ 10,990,760</u>	<u>\$ 3,462,409</u>	<u>\$ 14,453,169</u>

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 7 – ADVANCED REFUNDING**

On October 6, 2006, the School District advanced refunded a \$6,505,000 general obligation bond issue. The School District issued \$6,680,000 of general obligation refunding bonds and issued a check in the amount of \$35,000 from the 2001 debt retirement fund to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments for the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the district-wide financial statements. This advanced refunding was undertaken to reduce total debt service payments over the next 20 years by \$347,558 and to obtain economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$232,354.

**NOTE 8 – SHORT-TERM DEBT ACTIVITY**

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in the General Fund. These notes are necessary because the School District’s cash flow obligation for operating expenses precede the collection of state aid.

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid anticipation notes	\$ 1,700,000	\$ 1,600,000	\$ 1,700,000	\$ 1,600,000

The note is due August 20, 2007 with interest at 3.68%.

**NOTE 9 – RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers’ compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 10 – DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description** – The School District participates in the Michigan Public School Employees’ Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34% for the period from July 1, 2006 through September 30, 2006 and 17.74% from October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District’s contributions to the MPSERS plan for the years ended June 30, 2007, 2006 and 2005 were \$1,122,116, \$1,121,742 and \$968,965 respectively.

**Post-employment Benefits** – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for post-employment health care benefits are included as part of the School District’s total contribution to the MPSERS plan discussed above.

**NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 10, the School District provides a retirement incentive, in accordance with contractual language, to all teaching, support and qualifying administrative personnel who retire with 10 years of service to the School District. The School District will pay \$10,000 per retiring teacher up to a maximum of five (5) in any one fiscal year. The School District will pay \$10,000 per retiring administrator with 10 years of service. The School District also pays retiring support personnel,

CLARE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

excluding maintenance, custodial and transportation personnel, \$100 to \$200 per year of service for personnel with 10 years of service. Retiring maintenance and custodial personnel receive \$100 to \$175 per year of service for personnel with 10 years of service. Retiring transportation personnel receive \$50 to \$175 per year of service for personnel with 10 years of service. During the year ended June 30, 2007, the School District did not incur expenditures for other post-employment benefits. As of June 30, 2007, ninety-one employees are eligible to receive benefits.

**NOTE 12 – GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

**NOTE 13 – ECONOMIC DEPENDENCY**

The School District received approximately 80% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

**NOTE 14 - RELATED PARTY**

The School District has purchased goods for ground improvements and maintenance during the year from a business whose owner is also a member of the Board of Education in the amount of \$1,215.

Required Supplemental Information

**CLARE PUBLIC SCHOOLS**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2007**

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Local sources	\$ 1,633,799	\$ 1,748,568	\$ 1,899,874
State sources	9,949,427	9,788,998	9,679,485
Federal sources	508,608	467,692	456,661
Interdistrict and other sources	1,000	0	0
Total revenues	<u>12,092,834</u>	<u>12,005,258</u>	<u>12,036,020</u>
<u>Expenditures</u>			
Instruction:			
Basic programs	5,758,573	6,040,267	5,912,356
Added needs	1,796,052	1,564,768	1,546,097
Adult and continuing education	0	15,129	13,508
Support services:			
Pupil	459,429	284,150	278,271
Instructional staff	96,405	211,322	207,863
General administration	203,618	255,910	239,568
School administration	688,712	707,775	712,901
Business services	614,961	374,982	371,691
Operations and maintenance	1,387,290	1,325,115	1,285,263
Transportation	518,947	531,284	508,565
Central services	0	12,465	12,903
Information services	335,219	206,763	200,709
Community services	34,493	26,844	26,501
Capital outlay	0	135,054	118,257
Total expenditures	<u>11,893,699</u>	<u>11,691,828</u>	<u>11,434,453</u>
Excess of revenues over expenditures	<u>199,135</u>	<u>313,430</u>	<u>601,567</u>
<u>Other Financing (Uses)</u>			
Transfers to other governmental units	0	(2,982)	(2,981)
Operating transfers out to other funds	(305,740)	(199,992)	(190,444)
Total other financing (uses)	<u>(305,740)</u>	<u>(202,974)</u>	<u>(193,425)</u>
Net change in fund balance	(106,605)	110,456	408,142
Fund balance - beginning of year	<u>1,215,518</u>	<u>1,215,518</u>	<u>1,215,518</u>
Fund balance - end of year	<u>\$ 1,108,913</u>	<u>\$ 1,325,974</u>	<u>\$ 1,623,660</u>

Other Supplemental Information

CLARE PUBLIC SCHOOLS  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		<u>Capital Projects Fund</u>	<u>Total</u>
	<u>Athletic Activities</u>	<u>Food Services</u>	<u>2002 QZAB Issue</u>	<u>Durant Bond</u>	<u>Pioneer Development</u>	
<u>Assets</u>						
Cash and investments	\$ 5,874	\$ 12,863	\$ 104,421	\$ 0	\$ 15,553	\$ 138,711
Accounts receivable	0	90	0	0	0	90
Due from other governmental units	0	4,030	0	0	0	4,030
Inventories	0	6,979	0	0	0	6,979
Prepaid expenditures	150	1,425	0	0	0	1,575
Deposits	0	42,000	0	0	0	42,000
Total Assets	<u>\$ 6,024</u>	<u>\$ 67,387</u>	<u>\$ 104,421</u>	<u>\$ 0</u>	<u>\$ 15,553</u>	<u>\$ 193,385</u>
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accounts payable	\$ 2,989	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,989
Deferred revenue	0	826	0	0	0	826
Total liabilities	<u>2,989</u>	<u>826</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,815</u>
<u>Fund Balance</u>						
Reserved for inventories and prepaid expenditures	150	8,404	0	0	0	8,554
Reserved for debt service	0	0	104,421	0	0	104,421
Reserved for capital outlay	0	0	0	0	15,553	15,553
Unreserved - undesignated	2,885	58,157	0	0	0	61,042
Total fund balance	<u>3,035</u>	<u>66,561</u>	<u>104,421</u>	<u>0</u>	<u>15,553</u>	<u>189,570</u>
Total Liabilities and Fund Balance	<u>\$ 6,024</u>	<u>\$ 67,387</u>	<u>\$ 104,421</u>	<u>\$ 0</u>	<u>\$ 15,553</u>	<u>\$ 193,385</u>

**CLARE PUBLIC SCHOOLS**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		<u>Capital Project Fund</u>	
	<u>Athletic Activities</u>	<u>Food Services</u>	<u>2002 QZAB Issue</u>	<u>Durant Bond</u>	<u>Pioneer Development</u>	<u>Total</u>
<u>Revenues</u>						
Local	\$ 69,928	\$ 232,333	\$ 2,441	\$ 0	\$ 1,939	\$ 306,641
State	0	28,493	0	0	0	28,493
Federal	0	194,517	0	0	0	194,517
Total revenues	<u>69,928</u>	<u>455,343</u>	<u>2,441</u>	<u>0</u>	<u>1,939</u>	<u>529,651</u>
<u>Expenditures</u>						
Current:						
Food services	0	446,606	0	0	0	446,606
Athletics	251,470	0	0	0	0	251,470
Capital outlay	0	0	0	0	34,034	34,034
Total expenditures	<u>251,470</u>	<u>446,606</u>	<u>0</u>	<u>0</u>	<u>34,034</u>	<u>732,110</u>
Excess (deficiency) of revenues over expenditures	(181,542)	8,737	2,441	0	(32,095)	(202,459)
<u>Other Financing (Uses)</u>						
Operating transfers in from other funds	<u>165,917</u>	<u>0</u>	<u>24,527</u>	<u>0</u>	<u>0</u>	<u>190,444</u>
Net change in fund balance	(15,625)	8,737	26,968	0	(32,095)	(12,015)
Fund balance - beginning of year	<u>18,660</u>	<u>57,824</u>	<u>77,453</u>	<u>0</u>	<u>47,648</u>	<u>201,585</u>
Fund balance - end of year	<u>\$ 3,035</u>	<u>\$ 66,561</u>	<u>\$ 104,421</u>	<u>\$ 0</u>	<u>\$ 15,553</u>	<u>\$ 189,570</u>



# WEINLANDER FITZHUGH

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September 20, 2007

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

WALTER G. WEINLANDER, CPA  
ROY A. SCHAIRER, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

Board of Education  
Clare Public Schools  
Clare, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clare Public Schools as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 20, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Clare Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clare Public School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clare Public Schools' internal control over financial reporting.

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

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GLADWIN AND WEST BRANCH

**RSM** McGladrey Network

An Independently Owned Member



# WEINLANDER FITZHUGH

Board of Education  
Clare Public Schools  
September 20, 2007

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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies in 2007-1 in the accompanying schedule of findings and questioned cost to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the School District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clare Public 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 of 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 test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Clare Public Schools in a separate letter dated September 20, 2007.



# WEINLANDER FITZHUGH

Board of Education  
Clare Public Schools  
September 20, 2007

Clare Public Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. We did not audit Clare Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, 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.

*Weinlander Fitzhugh*



# WEINLANDER FITZHUGH

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September 20, 2007

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

WALTER G. WEINLANDER, CPA  
ROY A. SCHAIRES, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

Board of Education  
Clare Public Schools  
Clare, Michigan

### Compliance

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

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

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In our opinion, Clare Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the ended June 30, 2007.

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# WEINLANDER FITZHUGH

Board of Education  
Clare Public Schools  
September 20, 2007

## **Internal Control Over Compliance**

The management of Clare Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirement of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Clare Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was not 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use the Board of Education, management, others within the entity, 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.

CLARE PUBLIC SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified?  YES  NO
- Significant deficiencies identified not considered to be material weaknesses?  YES  NO

Noncompliance material to financial statements noted?  YES  NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified?  YES  NO
- Significant deficiencies identified not considered to be material weaknesses?  YES  NO

Type of auditor’s report issued on compliance of major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?  YES  NO

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

84.010 Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  YES  NO

**CLARE PUBLIC SCHOOLS**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2007-1**

**Criteria or Specific Requirement**

Establishment and maintenance of internal controls over monitoring the financial reporting process mainly the management discussion and analysis and the notes to the financial statements.

**Condition**

Due to the complexity of the required note disclosures and the District-wide statements in accordance with GASB 34, the School District does not maintain personnel who can report in accordance with U.S. generally accepted accounting principles without auditor intervention.

**Criteria**

Internal controls should be in place to provide reasonable assurance to the School District that the management possesses the skills necessary to monitor and report annual financial activity without auditor intervention.

**Effect**

The effect of this condition places a reliance on the independent auditor to be part of the School District's internal controls over financial reporting.

**Recommendation**

The School District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

**Views of Responsible Officials and Planned Corrective Action**

Currently the District is creating a plan to implement the necessary activities in order to educate School District personnel to properly monitor the preparation of the financial reporting process.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are no matters reported.

**CLARE PUBLIC SCHOOLS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2006	Adjustments and Transfers
<u>U.S. Department of Education</u>					
Passed through Michigan					
Department of Education:					
ECIA Title I	84.010				
Project 61530-0506		399,981	\$ 361,681	\$ 44,765	\$ (18,300)
Project 61530-0607		18,300	0	0	18,300
Project 71530-0607		399,059	0	0	0
			<u>361,681</u>	<u>44,765</u>	<u>0</u>
Homeless Children & Youth	84.196				
Project 52320-0506C		14,797	14,797	8,105	0
Project 52320-RC0506		24,534	0	0	24,534
Project 62320-0506		24,534	22,328	2,206	(24,534)
Project 72320-0607		23,483	0	0	0
			<u>37,125</u>	<u>10,311</u>	<u>(24,534)</u>
Title V	84.298				
Project 70250-0607		1,375	0	0	0
Technology Literacy Challenge	84.318				
Project 64290-0506		7,462	4,973	857	(2,489)
Project 64290-0607		2,489	0	0	2,489
Project 74290-0607		3,695	0	0	0
			<u>4,973</u>	<u>857</u>	<u>0</u>
Improving Teacher Quality	84.367				
Project 60520-0506		117,853	113,020	23,464	(4,833)
Project 60520-0607		4,833	0	0	4,833
Project 71530-0607		115,120	0	0	0
			<u>113,020</u>	<u>23,464</u>	<u>0</u>
Service Provider Self Review	84.027A	4,000	0	0	0
Passed through Gratiot Isabella RESD:					
Drug Free - DRUG01029	84.186	3,369	0	0	0
Passed through Manistee ISD					
Freedom to Learn	84.318	9,763	6,988	(2,775)	0
Passed through Clare Gladwin RESD:					
Personnel Development Collaborative	84.323	401	0	0	0
Transition/IDEA Grant	84.027A	118	0	0	0
Total U.S. Department of Education			<u>523,787</u>	<u>76,622</u>	<u>(24,534)</u>
<u>U.S. Department of Agriculture</u>					
Passed through Michigan Department of Education:					
Nutrition Cluster					
Breakfast	10.553	28,456	0	0	0
Sec. 4 and 11 - Free and Reduced	10.555	148,278	0	0	0
Food Distribution					
Entitlement Commodities	10.550	17,741	0	0	0
Bonus Commodities		42	0	0	0
Total U.S. Department of Agriculture			<u>0</u>	<u>0</u>	<u>0</u>
Grant Total			<u>\$ 523,787</u>	<u>\$ 76,622</u>	<u>\$ (24,534)</u>

See accompanying notes to financial statements

Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2007
\$ 44,765	\$ 0	\$ 0
18,300	18,300	0
<u>286,525</u>	<u>317,104</u>	<u>30,579</u>
<u>349,590</u>	<u>335,404</u>	<u>30,579</u>
8,105	0	0
24,534	0	(24,534)
2,206	0	0
<u>2,655</u>	<u>11,000</u>	<u>8,345</u>
<u>37,500</u>	<u>11,000</u>	<u>(16,189)</u>
<u>1,375</u>	<u>1,375</u>	<u>0</u>
857	0	0
2,489	2,489	0
<u>3,695</u>	<u>3,695</u>	<u>0</u>
<u>7,041</u>	<u>6,184</u>	<u>0</u>
23,464	0	0
4,833	4,833	0
<u>78,235</u>	<u>89,519</u>	<u>11,284</u>
<u>106,532</u>	<u>94,352</u>	<u>11,284</u>
<u>1,229</u>	<u>1,683</u>	<u>454</u>
3,369	3,369	0
0	2,775	0
401	401	0
<u>118</u>	<u>118</u>	<u>0</u>
<u>507,155</u>	<u>456,661</u>	<u>26,128</u>
28,456	28,456	0
148,278	148,278	0
17,741	17,741	0
42	42	0
<u>194,517</u>	<u>194,517</u>	<u>0</u>
<u>\$ 701,672</u>	<u>\$ 651,178</u>	<u>\$ 26,128</u>

**CLARE PUBLIC SCHOOLS**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

**NOTE 1 - BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Clare Public Schools and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

**NOTE 2 - OTHER DISCLOSURES**

Management has utilized the Grants Section Auditors Report and Cash Management System Grantor Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

**NOTE 3 - ADJUSTMENTS**

Grant project number 61530-0506 was reduced by \$18,300. Grant project number 61530-0607 was created for the carry-over amount of \$18,300.

Grant project number 62320-0506 was reduced by \$24,534. Grant project number 52320-RC0506 was created for the carry-over amount of \$24,534.

Grant project number 64290-0506 was reduced by \$2,489. Grant project number 64290-0607 was created for the carryover amount of \$2,489.

Grant project number 60520-0506 was reduced by \$4,833. Grant project number 60520-0607 was created for the carryover amount of \$4,833.



# WEINLANDER FITZHUGH

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September 20, 2007

To the Board of Education  
Clare Public Schools  
Clare, Michigan

This letter is intended to inform the Board of Education of Clare Public Schools about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Education.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

## **The Auditor's Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133**

Our audit of the financial statements of Clare Public Schools for the year ended June 30, 2007 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. 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. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

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

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# WEINLANDER FITZHUGH

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

## **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

## **Audit Adjustments**

There were audit adjustments made to the original trial balance presented to us to begin our audit. In our judgment, the adjustments we proposed, either individually or in the aggregate, are not considered to have a significant effect on the School District's financial reporting process.



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## **Accounting Policies and Alternative Treatments**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the School District. The School District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

## **Disagreements with Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

## **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing related matters.

## **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

## **Difficulties Encountered in Performing the Audit**

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



# WEINLANDER FITZHUGH

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## **Others Comments**

### **Future Auditing Pronouncements:**

Risk Based Auditing Standards - In early 2006, the AICPA's Auditing Standards Board (ASB) issued eight Statements on Auditing Standards (SAS) relating to the assessment of risk and performance of procedures in an audit of financial statements:

- SAS No. 104, Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures.
- SAS No. 105, Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards
- SAS No. 106, Audit Evidence
- SAS No. 107, Audit Risk and Materiality in Conducting an Audit
- SAS No. 108, Planning and Supervision
  
- SAS No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- SAS No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- SAS No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

Because these new standards demand a higher level of performance, there will be mandatory changes to the way we perform audits commencing with audit periods ending June 30, 2008. The new standards require us to perform more extensive procedures than in the past, resulting in an additional time commitment from both your personnel and our audit team.



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## **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Clare Public Schools.

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

*Weinlander Fitzhugh*



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September 20, 2007

Board of Education  
Clare Public Schools  
Clare, Michigan

In connection with our audit of the financial statements of Clare Public School as of and for the year ended June 30, 2007, we identified deficiencies in internal control over financial reporting (control deficiencies).

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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a 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.

We have separately communicated, to you and the Board of Education identified deficiencies that we determined to be significant deficiencies or material weaknesses.

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Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

## Segregation of Duties

This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance .

This is the situation with the School District. The School District has a lack of complete separation of duties with respect to the disbursements within the small funds. The business manager is entering the disbursements checks into the accounting system, signing checks and completing the bank reconciliation.

It is recommended that office personnel other than the business manager enter the small fund disbursements into the accounting system and complete the bank reconciliation for the small funds. The business manager should continue to review and sign the checks.

This communication is intended solely for the information and use of the Board of Education, management, others within the entity 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.

*Weinlander Fitzhugh*