



# WEINLANDER FITZHUGH

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& CONSULTANTS

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GLADWIN COMMUNITY SCHOOLS  
GLADWIN, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2007

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GLADWIN AND WEST BRANCH

**RSM** McGladrey Network

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## Independent Auditors' Report

October 15, 2007

To the Board of Education  
Gladwin Community Schools  
Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community 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 Gladwin Community 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 Gladwin Community 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  
Gladwin Community Schools  
October 15, 2007

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 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 and 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 listed in the table of contents is 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 Gladwin Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements, debt schedules 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 State, 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, debt schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

*Weinlander Fitzhugh*

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

Our discussion and analysis of the Gladwin Community School District's 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 by \$656,665 or 10%. Program revenues were \$3.1 million or 17% of total revenues and general revenues were \$15.2 million or 83%.

The General Fund reported a positive fund balance of \$1.2 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 Gladwin Community 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 and the Capital Projects Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation 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

GLADWIN COMMUNITY 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 corporations. 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 the 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 left 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.

**GLADWIN COMMUNITY 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. 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:

<b>Exhibit A</b>	<b>Governmental Activities</b>	
	2007	2006
<b>Assets</b>		
Current and other assets	\$ 6,300,000	\$ 8,300,000
Capital assets - net of accumulated depreciation	16,700,000	14,000,000
Total assets	23,000,000	22,300,000
<b>Liabilities</b>		
Current liabilities	4,100,000	3,800,000
Long-term liabilities	11,500,000	11,900,000
Total liabilities	15,600,000	15,700,000
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	5,300,000	2,200,000
Restricted	1,200,000	4,100,000
Unrestricted	900,000	400,000
Total net assets	\$ 7,400,000	\$ 6,700,000

GLADWIN COMMUNITY SCHOOLS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

The analysis on the previous page, (see Exhibit A) focuses on net assets. The School District's net assets were \$7.4 million at June 30, 2007. Capital assets, net of related debt was \$5.3 million, which 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 of \$1.2 million (for debt service and capital projects) 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 \$900,000 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.

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

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

<b>Exhibit B</b>	<b>Governmental Activities</b>	
	2007	2006
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 300,000	\$ 300,000
Grants and categoricals	2,700,000	3,000,000
General revenue:		
Property taxes	4,700,000	4,300,000
State foundation allowance	10,200,000	10,300,000
Other	400,000	300,000
	<b>18,300,000</b>	<b>18,200,000</b>
 <b>Function/Program Expenses</b>		
Instruction	10,000,000	10,600,000
Support services	5,800,000	6,300,000
Food services	600,000	600,000
Athletics	300,000	300,000
Interest on long-term debt	500,000	500,000
Depreciation and amortization (unallocated)	300,000	400,000
Other	100,000	200,000
	<b>17,600,000</b>	<b>18,900,000</b>
 <b>Change in Net Assets</b>	<b>\$ 700,000</b>	<b>\$ (700,000)</b>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$17.6 million. Certain activities were partially funded from those who benefited from the programs (\$300,000) or by the other governments and organizations that subsidized certain programs with grants and categorical (\$2.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$4.7 million in taxes, \$10.2 million in State Foundation Allowance and with our other revenues, such as interest and general entitlements.

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

The School District experienced an increase in net assets of \$700,000. Key reasons for the change in net assets were decreases in personnel costs due to the layoff of both certified and support personnel. The decrease 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 \$2.3 million, which is comparable to last year's total of \$4.7 million. The schedule below indicates the fund balances and the total change in fund balances as of June 30, 2007 and 2006.

	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 1,161,004	\$ 623,355	\$ 537,649
Capital Projects	754,111	3,679,001	(2,924,890)
Special Revenue	37,202	14,195	23,007
Debt Service	378,310	392,742	(14,432)
Total	<u>\$ 2,330,627</u>	<u>\$ 4,709,293</u>	<u>\$ (2,378,666)</u>

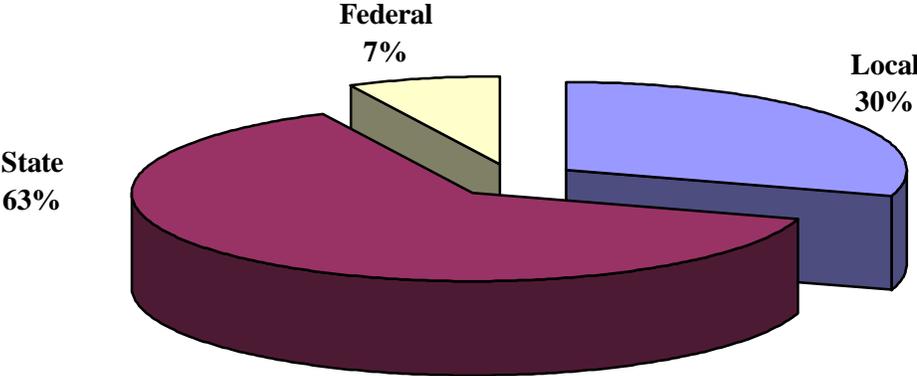
The School District completed this year with a combined fund balance decrease of \$2,378,666 from the previous year. The primary reason for the decrease was the use of bond proceeds for school improvements through the Capital Projects Fund and the payment of bond principal and interest through the Debt Service Funds.

- Our General Fund had an increase in fund balance due to a decrease in overall spending as a result of staff layoffs.
- Our Special Revenue Funds had an increase in fund balance due to an increase in federal revenue sources as an increase in free and reduced lunches served.
- Our Debt Service Fund is funded by local millage (tax collections). The decrease was due to the 1994 debt issue being finalized and closed.

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

As the graph below illustrates, the largest portion of the School District's revenue comes from state sources. Sixty three (63%) percent of the School District's revenue comes from state sources.

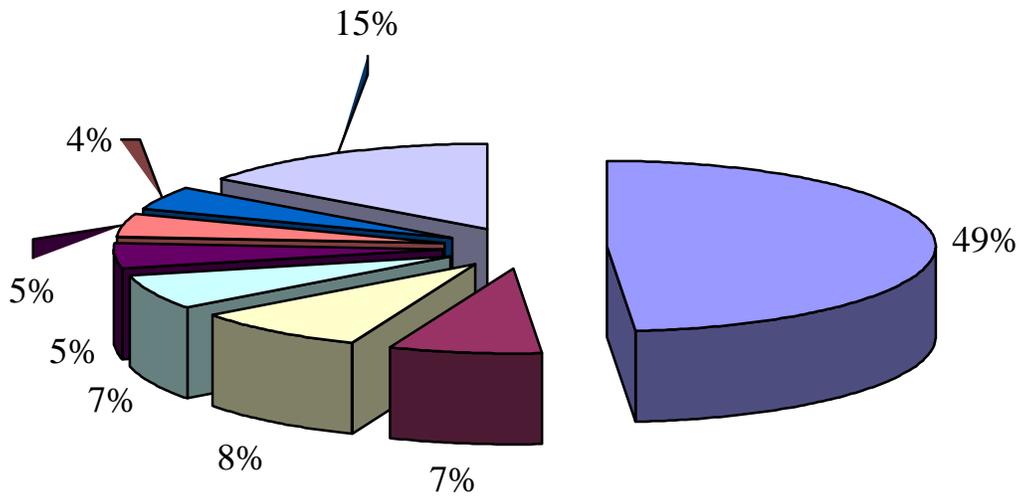
**Sources of Revenue**



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

The graph below illustrates 49% of the General Fund' resources are spent on instruction. Another 7% is spent on pupil and instructional services necessary to support the needs of the students of the School District, while 7% is spent for operation and maintenance, including utilities and custodial services. The School District spent 15% on capital projects related to the bond issuance. The remaining 22% is spent on other support services.

**Expenditures**

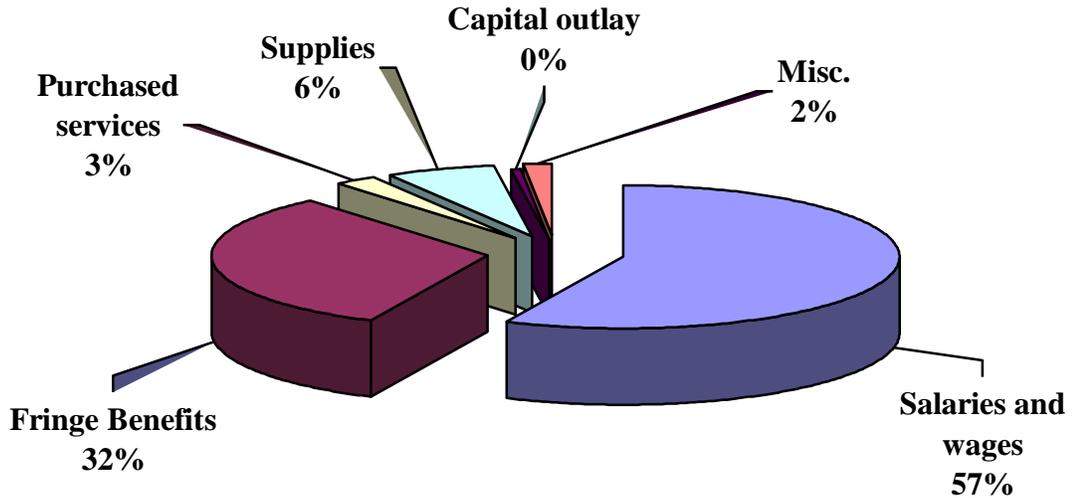


<span style="color: blue;">■</span> Instruction	<span style="color: maroon;">■</span> Pupil & Instructional Services
<span style="color: yellow;">■</span> Administration & Other Support Services	<span style="color: cyan;">■</span> Operations & Maintenance
<span style="color: purple;">■</span> Transportation	<span style="color: red;">■</span> Debt Service
<span style="color: blue;">■</span> Food & Athletics	<span style="color: lightblue;">■</span> Capital Projects

**GLADWIN COMMUNITY 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.

**Expenditures by Natural Classification**



<i>Expenditures by Object</i>	2007	2006
Salaries and wages	\$ 8,774,569	\$ 9,403,946
Fringe benefits	4,825,146	5,267,557
Purchased services	910,621	413,218
Supplies	924,479	1,036,623
Capital outlay	74,778	67,233
Miscellaneous	354,393	294,853
<b>Total</b>	<b>\$ 15,863,986</b>	<b>\$ 16,483,430</b>

Expenditures are down \$619,444 or 4% over the prior year mostly due to a decrease in personnel, fringe benefits and supply expenses. The decrease was offset by an increase in purchased services. This increase in purchased services is mainly due to the subcontracting of substitute teachers for most of the fiscal year.

GLADWIN COMMUNITY SCHOOLS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007

**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:

- Budgeted revenues increased from the original budget by \$125,666. The increase was due to higher than expected property tax revenue. The State revenue budget was decreased due to the School District not expecting to receive State funding due to budget problems at the State level. The School District received additional State categorical funding that was not anticipated. The overall change was immaterial.
- Budgeted expenditures decreased from the original budget by \$1,036,556. This was mainly due to staff layoffs made after the original budget was approved by the board of education. The retirement rate was decreased midyear which gave an unexpected reduction in retirement costs. There were also reductions in spending in all other areas of the budget.
- Actual revenues increased from the final revenue by \$53,924 due to an increase local and state revenue sharing. The increase was off set by a decrease in federal revenue.
- Actual expenditures decreased from final expenditures by \$312,038 due to a decrease in retirement rate midyear.

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

**Capital Assets**

At June 30, 2007, the School District had \$16.7 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 approximately \$2.6 million or 18%, from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ 121,920	\$ 121,920
Construction in progress	0	7,934,572
Buildings and improvements	24,275,846	13,465,672
Buses and other vehicles	1,461,135	1,500,635
Furniture and equipment	<u>678,762</u>	<u>652,762</u>
 Total capital assets	 26,537,663	 23,675,561
 Less accumulated depreciation	 <u>9,875,027</u>	 <u>9,585,321</u>
 Net capital assets	 <u>\$ 16,662,636</u>	 <u>\$ 14,090,240</u>

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

This year's additions of \$2.9 million were for the building improvements on Elementary, Junior High and Intermediate schools, \$18,000 on lawn mowers and \$8,000 for wrestling equipment. These capital improvements are being financed through the 2004 bond issuance. General operating funds and donations were used for the other capital purchases.

We will be making capital improvements to the High School and making purchases of buses in the 2007-2008 school year. 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 \$11.1 million in bonds outstanding versus \$11.6 million in the previous year – a change of 4%. Those bonds consisted of the following:

	2007	2006
General Obligation Bonds	\$ 11,000,000	\$ 11,425,000
Durant Bonds	126,065	126,065
	\$ 11,126,065	\$ 11,551,065

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.

**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 2007-2008 school year, we anticipate that the fall student count will be close to 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

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

District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds will not fund the appropriation.

**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  
Gladwin Community School District  
401 N. Bowery Avenue, 2<sup>nd</sup> Floor  
Gladwin, MI 48624

GLADWIN COMMUNITY SCHOOLS  
Statement of Net Assets  
June 30, 2007

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 3,875,404
Receivables:	
Accounts receivable	6,346
Due from other governmental units	1,922,914
Prepaid expenses	80,271
Inventories	3,345
Land contract receivable	238,695
Bond issuance costs less accumulated amortization of \$34,308	194,410
Capital assets less accumulated depreciation \$9,875,027	16,662,636
 Total assets	 22,984,021
<u>Liabilities</u>	
State aid note payable	2,700,000
Accrued payroll and other liabilities	857,653
Accrued interest payable	95,884
Long-term liabilities:	
Due within one year	492,848
Due in more than one year	11,459,174
Total liabilities	15,605,559
 <u>Net Assets</u>	
Investment in capital assets - net of related debt	5,297,171
Restricted for capital projects	754,111
Restricted for debt service	378,310
Unrestricted	948,870
 Total net assets	 \$ 7,378,462

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS  
Statement of Activities  
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities				
Instruction	\$10,079,788	\$ 15,160	\$ 1,903,735	\$ (8,160,893)
Support services	5,826,596	20,520	357,437	(5,448,639)
Community services	12,693	213	49,336	36,856
Food services	632,724	218,916	426,763	12,955
Athletics	288,549	88,387	0	(200,162)
Interest on long-term debt	457,205	0	0	(457,205)
Depreciation (unallocated)	329,206	0	0	(329,206)
Amortization (unallocated)	11,436	0	0	(11,436)
Total governmental activities	\$17,638,197	\$ 343,196	\$ 2,737,271	(14,557,730)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				3,809,902
Property taxes, levied for debt services				854,809
State aid not restricted to specific purposes				10,161,482
Interest and investment earnings				183,691
Loss on sale of assets				(11,305)
Other				215,816
Total general revenues				15,214,395
Change in net assets				656,665
Net assets - beginning of year				6,721,797
Net assets - end of year				\$ 7,378,462

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS  
Governmental Funds  
Balance Sheet  
June 30, 2007

	General	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and investments	\$2,669,403	\$ 774,198	\$ 431,803	\$ 3,875,404
Receivables:				
Accounts receivable	6,346	0	0	6,346
Due from other funds	24,203	0	4,567	28,770
Due from other governmental units	1,922,914	0	0	1,922,914
Prepaid expenditures	80,271	0	0	80,271
Inventories	0	0	3,345	3,345
Total Assets	\$4,703,137	\$ 774,198	\$ 439,715	\$ 5,917,050
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
State aid note payable	\$2,700,000	\$ 0	\$ 0	\$ 2,700,000
Accrued payroll and other liabilities	837,566	20,087	0	857,653
Due to other funds	4,567	0	24,203	28,770
Total liabilities	3,542,133	20,087	24,203	3,586,423
<u>Fund Balances</u>				
Reserved for prepaid expenditures	80,271	0	0	80,271
Reserved for inventories	0	0	3,345	3,345
Reserved for capital projects	0	754,111	0	754,111
Reserved for debt service	0	0	378,310	378,310
Unreserved / Undesignated	1,080,733	0	33,857	1,114,590
Total fund balances	1,161,004	754,111	415,512	2,330,627
Total Liabilities and Fund Balances	\$4,703,137	\$ 774,198	\$ 439,715	\$ 5,917,050

See accompanying notes to financial statements

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

Total fund balances - governmental funds	\$ 2,330,627
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	26,537,663
Accumulated depreciation	(9,875,027)
Bond issuance costs	228,718
Accumulated amortization	(34,308)
Land contract receivable not due in the current period and is not reported in the funds.	
	238,695
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(11,126,065)
Land contract payable	(111,723)
Capital leases	(31,793)
Compensated absences	(682,441)
Accrued interest payable is not included as a liability in governmental activities	<u>(95,884)</u>
Total net assets - governmental activities	<u><u>\$ 7,378,462</u></u>

See accompanying notes to financial statements

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

	General	Capital Projects Fund	Other Nonmajor Governmental Funds	Totals
<u>Revenues</u>				
Local sources:				
Property taxes	\$ 3,809,902	\$ 0	\$ 854,809	\$ 4,664,711
Other	371,999	80,708	331,331	784,038
State sources	11,510,158	0	22,223	11,532,381
Federal sources	912,496	0	404,540	1,317,036
Total revenues	<u>16,604,555</u>	<u>80,708</u>	<u>1,612,903</u>	<u>18,298,166</u>
<u>Expenditures</u>				
Current:				
Instruction	10,064,071	0	0	10,064,071
Support services	5,643,072	0	0	5,643,072
Community services	12,693	0	0	12,693
Capital outlay	71,527	3,005,598	0	3,077,125
Food service	0	0	632,724	632,724
Athletics	0	0	288,549	288,549
Debt service:				
Principal	63,739	0	425,000	488,739
Interest and other	8,884	0	460,975	469,859
Total expenditures	<u>15,863,986</u>	<u>3,005,598</u>	<u>1,807,248</u>	<u>20,676,832</u>
Excess (deficiency) of revenues over expenditures	<u>740,569</u>	<u>(2,924,890)</u>	<u>(194,345)</u>	<u>(2,378,666)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in from other funds	0	0	206,203	206,203
Operating transfers out to other funds	(202,920)	0	(3,283)	(206,203)
Total other financing sources (uses)	<u>(202,920)</u>	<u>0</u>	<u>202,920</u>	<u>0</u>
Net change in fund balance	537,649	(2,924,890)	8,575	(2,378,666)
Fund balance - beginning of year	<u>623,355</u>	<u>3,679,001</u>	<u>406,937</u>	<u>4,709,293</u>
Fund balance - end of year	<u>\$ 1,161,004</u>	<u>\$ 754,111</u>	<u>\$ 415,512</u>	<u>\$ 2,330,627</u>

See accompanying notes to financial statements

GLADWIN COMMUNITY 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 balances - total governmental funds	\$ (2,378,666)
Amounts reported for governmental activities in the statement of activities are different because:	
In the statement of activities, only the loss on the sale of the fixed asset is reported, whereas in the governmental funds, only the payments received on the land contract increase financial resources.	
	(11,305)
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	(11,436)
Depreciation expense	(329,206)
Capital outlay	2,901,602
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	
	(2,622)
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:	
Repayment of bonds	425,000
Repayment of land contract	22,063
Repayment of capital leases	56,952
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	
	<u>(15,717)</u>
Change in net assets of governmental activities	<u><u>\$ 656,665</u></u>

See accompanying notes to financial statements

GLADWIN COMMUNITY SCHOOLS  
Fiduciary Fund  
Statement of Fiduciary Net Assets  
June 30, 2007

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	<u>\$ 189,463</u>
<u>Liabilities</u>	
Due to student groups	<u>\$ 189,463</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

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

The accounting policies of Gladwin Community 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 segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational 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

GLADWIN COMMUNITY 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; and (2) operating 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.

GLADWIN COMMUNITY 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 funds:

**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.

**Capital Projects Fund** – The Capital Projects Fund is used to record the activity related to major construction projects of the School District. Included are transaction related to the additions and improvements to the School District’s grounds and buildings.

**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 is recorded as prepaid items in both district-wide and fund financial statements. Bond issuance costs are reflected only in the district wide financial statements and will be amortized over a twelve year period.

**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.

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

Buildings and improvements	10-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

GLADWIN COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

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

**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 Gladwin Community 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.

**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.

**GLADWIN COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

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

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 \$1,885,234.

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.

Gladwin Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

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

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.

**GLADWIN COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2007

**NOTE 2 – BUDGETS (CONTINUED)**

During the year ended June 30, 2007, the School District received revenues in certain budgetary funds which were under the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Amount of Revenue</u>	<u>Budget Variance</u>
General Fund:			
Federal sources	\$ 1,176,873	\$ 912,496	\$ 264,377

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:			
Adult and continuing education	\$ 181,403	\$ 272,955	\$ 91,552
General administration	298,860	302,289	3,429
Business services	491,213	496,011	4,798
Facilities acquisition	59,963	71,527	11,564
Debt service	58,547	72,623	14,076

**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:

GLADWIN COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

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

	Governmental Activities	Fiduciary Fund	Total Primary Government
Cash and investments	\$ 3,875,404	\$ 189,463	\$ 4,064,867

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,257,179
Investments in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity not to exceed 60 days	2,805,813
Petty cash and cash on hand	1,875
Total	\$ 4,064,867

**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, \$546,988 of the School District's bank balance of \$646,988 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The School District's investment policy does not identify interest rate risk, foreign currency risk, and concentration credit risk.

**GLADWIN COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2007

**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	\$ 121,920	\$ 0	\$ 0	\$ 121,920
Construction in progress	7,934,572	0	(7,934,572)	0
Subtotal	8,056,492	0	(7,934,572)	121,920
Capital assets being depreciated:				
Building and improvements	13,465,672	10,810,174	0	24,275,846
Buses and other vehicles	1,500,635	0	(39,500)	1,461,135
Furniture and equipment	652,762	26,000	0	678,762
Subtotal	15,619,069	10,836,174	(39,500)	26,415,743
Accumulated depreciation:				
Building and improvements	7,789,003	231,143	0	8,020,146
Buses and other vehicles	1,337,872	58,686	(39,500)	1,357,058
Furniture and equipment	458,446	39,377	0	497,823
Subtotal	9,585,321	329,206	(39,500)	9,875,027
Net capital assets being depreciated	6,033,748	10,506,968	0	16,540,716
Net capital assets	<u>\$ 14,090,240</u>	<u>\$ 10,506,968</u>	<u>\$ (7,934,572)</u>	<u>\$ 16,662,636</u>

Depreciation for fiscal year ended June 30, 2007 amounted to \$329,206. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

GLADWIN COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

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

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 24,203	\$ 4,567	\$ 0	\$ 202,920
Special Revenue:				
Athletics	0	0	202,920	0
Food Service	4,567	24,203	0	0
Debt	<u>0</u>	<u>0</u>	<u>3,283</u>	<u>3,283</u>
	<u>\$ 28,770</u>	<u>\$ 28,770</u>	<u>\$ 206,203</u>	<u>\$ 206,203</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems and (3) payments between funds are made.

Transfers are used to (1) supplement athletic operational costs, and (2) reflect funding support for debt payments.

**GLADWIN COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**NOTE 6 – LAND CONTRACT RECEIVABLE**

Gladwin Community Schools entered into a land contract to sell the adult education building on June 15, 2006 in the amount of \$250,000. The land contract requires quarterly installments of \$6,348 including interest at 6.136%.

**NOTE 7 – 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
Bonds	\$ 11,551,065	\$ 0	\$ 425,000	\$ 11,126,065	\$ 450,000
Land contract	133,786	0	22,063	111,723	23,417
Capital leases	88,745	0	56,952	31,793	19,431
Retirement stipends and compensated absences	666,724	41,122	25,405	682,441	0
<b>Total</b>	<b><u>\$ 12,440,320</u></b>	<b><u>\$ 41,122</u></b>	<b><u>\$ 529,420</u></b>	<b><u>\$ 11,952,022</u></b>	<b><u>\$ 492,848</u></b>

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

\$11,600,000 General Obligation Bonds due in annual installments of \$125,000 to \$825,000 through May 1, 2024; interest at 3.50% to 4.50%	\$ 11,000,000
\$213,501 Durant Non-Plaintiff serial bonds due in annual installments of \$10,824 to \$49,901 through May 15, 2013; interest at 4.76%	<u>126,065</u>
<b>Total Bonded Debt</b>	<b><u>\$ 11,126,065</u></b>

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.

GLADWIN COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

Gladwin Community Schools entered into a land contract obligation on May 25, 2002 for a building to be used for the alternative education program in the amount of \$210,000. The land contract calls for quarterly installments of \$7,400 including interest at 6%. The principal balance at June 30, 2007 was \$111,723.

The School District has entered into long-term lease agreements for telephone systems for the junior and senior high schools, the purchase of a bus, the purchase of software and the purchase of copiers. Depreciation of this phone system, bus, software and copiers are included in depreciation expense. The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2007:

2008	\$	24,924
2009		13,225
		38,149
Amount representing interest		(6,356)
		\$ 31,793

Under the terms of the present contracts between the Board of Education of Gladwin Community Schools and the various employee groups, including teachers, administration, custodians, bus drivers and extra support personnel, the School District is contingently liable for compensated absences (sick pay) and retirement stipends pay. The amount of compensated absences and retirement stipends, calculated based on number of years of service, amounted to \$291,958 and \$390,483 respectively at June 30, 2007.

**GLADWIN COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2007

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize bonds, land contracts and capital leases outstanding as of June 30, 2007 including interest payments are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 492,848	\$ 461,800	\$ 954,648
2009	524,097	447,596	971,693
2010	599,551	455,408	1,054,959
2011	566,038	411,930	977,968
2012	572,737	392,808	965,545
2013-2017	3,139,310	1,623,494	4,762,804
2018-2022	3,750,000	883,125	4,633,125
2023-2024	1,625,000	110,250	1,735,250
	<u>\$ 11,269,581</u>	<u>\$ 4,786,411</u>	<u>\$ 16,055,992</u>

**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 its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

	Beginning Balance	Issued	Redeemed	Ending Balance
State Aid Anticipation Note due August 20, 2007, accruing interest at 3.68%	<u>\$ 2,300,000</u>	<u>\$ 2,700,000</u>	<u>\$ 2,300,000</u>	<u>\$ 2,700,000</u>

GLADWIN COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2007

**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.

**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 \$1,571,230, \$1,561,174 and \$1,142,177, respectively.

**Postemployment 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 postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

**GLADWIN COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**NOTE 11 – 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 12 – ECONOMIC DEPENDENCY**

The School District received approximately 69% 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 13 – SUBSEQUENT EVENTS**

In September 2007, the School District's voters approved a bond issue in the amount \$2,400,000 to be used for remodeling the high school, purchasing buses and developing and improving sites. The bonds will be due in seventeen years after the original date of issuance.

GLADWIN COMMUNITY 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	\$ 3,432,597	\$ 4,023,418	\$ 4,181,901
State sources	11,853,608	11,350,340	11,510,158
Federal sources	1,138,760	1,176,873	912,496
Total revenues	<u>16,424,965</u>	<u>16,550,631</u>	<u>16,604,555</u>
<u>Expenditures</u>			
Instruction:			
Basic programs	7,399,166	7,071,173	6,993,776
Added needs	3,209,342	2,900,391	2,797,340
Adult and continuing education	96,327	181,403	272,955
Support services:			
Pupil	1,385,417	973,510	953,497
Instructional staff	591,542	649,862	591,215
General administration	273,542	298,860	302,289
School administration	1,084,069	953,119	945,169
Business services	660,869	491,213	496,011
Operations and maintenance	1,430,705	1,494,063	1,391,222
Transportation	1,033,517	1,021,461	963,669
Debt service	8,812	58,547	72,623
Facilities acquisition	20,786	59,963	71,527
Community services	18,486	22,459	12,693
Total expenditures	<u>17,212,580</u>	<u>16,176,024</u>	<u>15,863,986</u>
Excess (deficiency) of revenue over expenditures	(787,615)	374,607	740,569
<u>Other Financing Sources (Uses)</u>			
Operating transfers out to other funds	<u>(160,000)</u>	<u>(202,920)</u>	<u>(202,920)</u>
Net changes in fund balance	(947,615)	171,687	537,649
Fund balance - beginning of year	<u>623,355</u>	<u>623,355</u>	<u>623,355</u>
Fund balance - end of year	<u>\$ (324,260)</u>	<u>\$ 795,042</u>	<u>\$ 1,161,004</u>

GLADWIN COMMUNITY SCHOOLS  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007

	Special Revenue Funds		Debt Service Funds			Total
	Athletic Activities	Food Service	1994 Issue	2004 Issue	Durant Issue	
<u>Assets</u>						
Cash and investments	\$ 2,758	\$ 50,735	\$ 0	\$ 378,310	\$ 0	\$ 431,803
Due from other funds	0	4,567	0	0	0	4,567
Inventories	0	3,345	0	0	0	3,345
 Total Assets	 <u>\$ 2,758</u>	 <u>\$ 58,647</u>	 <u>\$ 0</u>	 <u>\$ 378,310</u>	 <u>\$ 0</u>	 <u>\$ 439,715</u>
 <u>Liabilities and Fund Balances</u>						
<u>Liabilities</u>						
Due to other funds	\$ 0	\$ 24,203	\$ 0	\$ 0	\$ 0	\$ 24,203
 <u>Fund Balances</u>						
Reserved for inventories	0	3,345	0	0	0	3,345
Reserved for debt service	0	0	0	378,310	0	378,310
Unreserved/Undesignated	2,758	31,099	0	0	0	33,857
 Total fund balances	 <u>2,758</u>	 <u>34,444</u>	 <u>0</u>	 <u>378,310</u>	 <u>0</u>	 <u>415,512</u>
 Total Liabilities and Fund Balances	 <u>\$ 2,758</u>	 <u>\$ 58,647</u>	 <u>\$ 0</u>	 <u>\$ 378,310</u>	 <u>\$ 0</u>	 <u>\$ 439,715</u>

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

	Special Revenue Funds		Debt Service Funds			Total
	Athletic Activities	Food Services	1994 Issue	2004 Issue	Durant Issue	
	<u>Revenues</u>					
Local	\$ 88,387	\$226,210	\$ 71	\$871,472	\$ 0	\$ 1,186,140
State	0	22,223	0	0	0	22,223
Federal	0	404,540	0	0	0	404,540
<b>Total revenues</b>	<b>88,387</b>	<b>652,973</b>	<b>71</b>	<b>871,472</b>	<b>0</b>	<b>1,612,903</b>
<u>Expenditures</u>						
Current:						
Food services	0	632,724	0	0	0	632,724
Athletics	288,549	0	0	0	0	288,549
Debt service:						
Principal	0	0	0	425,000	0	425,000
Interest and other	0	0	0	460,975	0	460,975
<b>Total expenditures</b>	<b>288,549</b>	<b>632,724</b>	<b>0</b>	<b>885,975</b>	<b>0</b>	<b>1,807,248</b>
Excess (deficiency) of revenues over expenditures	(200,162)	20,249	71	(14,503)	0	(194,345)
<u>Other Financing Sources (Uses)</u>						
Operating transfers in from other funds	202,920	0	0	3,283	0	206,203
Operating transfers out to other funds	0	0	(3,283)	0	0	(3,283)
<b>Total other financing sources (uses)</b>	<b>202,920</b>	<b>0</b>	<b>(3,283)</b>	<b>3,283</b>	<b>0</b>	<b>202,920</b>
Net change in fund balance	2,758	20,249	(3,212)	(11,220)	0	8,575
Fund balance - beginning of year	0	14,195	3,212	389,530	0	406,937
Fund balance - end of year	\$ 2,758	\$ 34,444	\$ 0	\$378,310	\$ 0	\$ 415,512



GLADWIN COMMUNITY SCHOOLS  
 Other Supplemental Information  
 Schedule of Bonded Indebtedness  
For the Year Ended June 30, 2007

PURPOSE Remodeling school buildings and improving sites.

DATE OF ISSUE November 24, 1998

AMOUNT OF ISSUE \$ 213,501

AMOUNT OF RETIRED

During prior years	\$ 87,436	
During current year	<u>0</u>	<u>87,436</u>

BALANCE OUTSTANDING - June 30, 2007 \$ 126,065

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	4.76%	\$ 0	\$ 0	\$ 0
2009	4.76%	11,882	3,111	14,993
2010	4.76%	73,172	27,562	100,734
2011	4.76%	13,040	1,953	14,993
2012	4.76%	13,660	1,332	14,992
2013	4.76%	<u>14,311</u>	<u>681</u>	<u>14,992</u>
		<u><u>\$ 126,065</u></u>	<u><u>\$ 34,639</u></u>	<u><u>\$ 160,704</u></u>



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October 15, 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

Board of Education  
Gladwin Community Schools  
Gladwin, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladwin Community 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 October 15, 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 Gladwin Community 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 Gladwin Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gladwin Community 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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Board of Education  
Gladwin Community Schools  
October 15, 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 School District'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 School District's internal control over financial reporting. We consider the deficiencies described 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 Gladwin Community Schools' internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above is not a material weakness.

### **Compliance and Other Matters**

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

Gladwin Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. We did not audit Gladwin Community 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.



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

Board of Education  
Gladwin Community Schools  
Gladwin, Michigan

### Compliance

We have audited the compliance of Gladwin Community 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. Gladwin Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gladwin Community Schools' management. Our responsibility is to express an opinion on Gladwin Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Gladwin Community 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 Gladwin Community Schools' compliance with those requirements.

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

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Board of Education  
Gladwin Community Schools  
October 15, 2007

**Internal Control Over Financial Reporting**

The management of Gladwin Community Schools' is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gladwin Community 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 Gladwin Community Schools' 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 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.

A handwritten signature in black ink that reads 'Weinlander Fitzhugh'.

GLADWIN COMMUNITY 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	ECIA Title I
10.553 – 10.556	USDA Nutrition Cluster

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

Auditee qualified as low-risk auditee?  YES  NO

GLADWIN COMMUNITY 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 the financial reporting process.

Condition

Personnel responsible for financial reporting do not possess the skills necessary to monitor and report annual financial activity without auditor intervention

Criteria

Internal controls should be in place to provide reasonable assurance to the School District that 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 the Responsible Officials and Planned Corrective Action

As a result of the state of educational funding, the School District has not allocated resources to fund this process. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

**SECTION III - Federal Award Findings and Questioned Costs**

There are no matters reported.

**GLADWIN COMMUNITY 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	Current Year Receipts (Cash Basis)
<u>U.S. Department of Education</u>						
Passed through Michigan						
Department of Education:						
Adult Education - State Administration						
Project 61130-610786	84.002	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 10,000
Project 61190-610786	84.002	22,217	24,000	0	0	(1,783)
Project 71130-710787	84.002	34,200	0	0	0	29,200
Project 71190-710787	84.002	24,000	0	0	0	24,000
			<u>24,000</u>	<u>0</u>	<u>0</u>	<u>61,417</u>
ECIA Title I						
Project 071530-0607	84.010	506,290	0	0	0	381,454
Project 070250-0607	84.010	3,690	0	0	0	3,690
			<u>0</u>	<u>0</u>	<u>0</u>	<u>385,144</u>
ECIA Title V						
Project 070440-0607	84.298	4,500	0	0	0	4,184
Technology Literacy Challenge						
Project 74290-0607	84.318	5,197	0	0	0	5,197
Reading First State Grants						
Project 62930-0506	84.357A	417,956	437,750	0	0	(19,794)
Project 0629330-0607	84.357A	380,553	0	0	0	302,921
			<u>437,750</u>	<u>0</u>	<u>0</u>	<u>283,127</u>
Improving Teacher Quality						
Project 70520-0607	84.367	165,491	0	0	0	160,770
Hurricane Katrina Relief						
Project 64120-0607	84.938	874	638	638	0	874
Passed through Clare-Gladwin ISD:						
Transition and IDEA grant	84.027A	236	0	0	0	236
Passed through Clare-Gladwin ISD:						
Personnel Dev. Collaborative	84.323	1,317	0	0	0	1,317
Total U.S. Department of Education			<u>462,388</u>	<u>638</u>	<u>0</u>	<u>902,265</u>
<u>U.S. Department of Health and Human Services</u>						
Passed through Michigan						
Department of Education:						
Temporary Assistance for Needy Families (FIT grant)	93.558	5,869	0	0	0	5,869
<u>U.S. Department of Agriculture</u>						
Passed through Michigan Department of Education:						
Nutrition Cluster						
Breakfast	10.553	80,365	0	0	0	80,365
Sec. 4 and 11 - Free and Reduced	10.555	311,433	0	0	0	311,433
Special milk program	10.556	413	0	0	0	413
Food Distribution						
Entitlement Commodities	10.550	11,980	0	0	0	11,980
Bonus Commodities	10.550	349	0	0	0	349
Total U.S. Department of Agriculture			<u>0</u>	<u>0</u>	<u>0</u>	<u>404,540</u>
Grant Total			<u>\$ 462,388</u>	<u>\$ 638</u>	<u>\$ 0</u>	<u>\$ 1,312,674</u>

See accompanying notes to financial statements

Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2007
\$ 10,000	\$ 0
(1,783)	0
34,200	5,000
<u>24,000</u>	<u>0</u>
<u>66,417</u>	<u>5,000</u>
381,454	0
3,690	0
<u>385,144</u>	<u>0</u>
<u>4,184</u>	<u>0</u>
5,197	0
(19,794)	0
<u>302,921</u>	<u>0</u>
<u>283,127</u>	<u>0</u>
160,770	0
235	(1)
236	0
<u>1,317</u>	<u>0</u>
<u>906,627</u>	<u>5,000</u>
<u>5,869</u>	<u>0</u>
80,365	0
311,433	0
413	0
11,980	0
349	0
<u>404,540</u>	<u>0</u>
<u>\$ 1,317,036</u>	<u>\$ 5,000</u>

**GLADWIN COMMUNITY 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 Gladwin Community 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 the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

**NOTE 3 – ADJUSTMENTS**

Grant project number 61190-610786 was reduced by \$1,783.

Grant project number 62930-0506 was reduced by \$19,794.



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October 15, 2007

To the Board of Education  
Gladwin Community Schools  
Beaverton, Michigan

This letter is intended to inform the Board of Education of Gladwin Community 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 Gladwin Community Schools (School District) 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 Gladwin Community 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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As part of obtaining reasonable assurance about whether Gladwin Community 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 Gladwin Community 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 Gladwin Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Gladwin Community 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.



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## **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.

## **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 Gladwin Community Schools.

This report is intended solely for the information and use of the management, Board of Education and the State of Michigan and is not intended to be, and should not be, used by anyone other than the specified parties.

*Weinlander Fitzhugh*