GWINN AREA COMMUNITY SCHOOLS
GWINN, MICHIGAN

FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

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ANDERSON, TACKMAN & COMPANY, P.L.C.
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INDEPENDENT AUDITORS' REPORT

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2007, on our consideration of the Gwinn Area Community Schools' internal control over financial reporting and our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Gwinn Area Community Schools basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Gwinn Area Community Schools. The combining and individual nonmajor fund financial statements and the 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2007

Gwinn Area Community Schools is a K-12 Public School District located in Marquette County, Michigan. Our discussion and analysis of Gwinn Area Community Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2007. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- Net assets for Gwinn Area Community Schools as a whole were reported as $3,322,604. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools expenses were $13,364,340, while revenues from all sources totaled $13,173,495, resulting in a decrease in net assets of $190,845.
- September 2006 enrollment decreased 93.86 FTEs over the prior year. The district was able to qualify for declining enrollment assistance under section 6(40(y) of the State Aid School Act which allows the district's average three year membership to used in funding calculations.
- The Foundation Allowance increased $210 to $7,085 per student.
- For the first time, it was necessary for the district to borrow from the Michigan Municipal Bond Authority (MMBA). The short –term agreement was for $600,000 and was paid back in full in July 2007.
- The general fund reported a decrease in fund balance of $117,358 after other financing sources (uses). This is $200,619 less than the forecasted decrease of $317,980, which is a net result of revenues totaling $79,892 more and expenditures $114,300 less. Both of these do not include Federal program grants. In addition, net transfers ended up coming in at $6,427 better than anticipated. These are all immaterial (1.5%) when compared with budgeted revenues/transfers of $12,521,187 and budgeted expenditures/transfers of $12,839,167. There were no significant variances between the final budget and actual amounts other than classification alterations.

Overview of the Financial Statements

This annual report consists of three parts: Management's discussions and analysis (this section), the basic financial statements, and required supplementary information. Generally Accepted Accounting Principles (GAAP) through GASB 34 requires the reporting of two *types* of financial statements: District-Wide Financial Statements and Fund Financial Statements.

- The first type, *District-Wide Financial Statements (Government-Wide Financial Statements)*, consist of two statements: Statement of Net Assets and Statement of Activities. These provide both short-term and long-term information about the district's overall financial status.

- The second type, *Fund Financial Statements*, focus on individual parts of the district. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the district's operations in more detail than the District-Wide Statements by providing information about the District's most significant fund – the General, 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 District acts solely as an agent for the benefit of students and parents.

The financial statements also include notes that further explain dollar amounts and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

District-Wide Financial Statements

The one thing all stake-holders (parents, teachers and community members) want to know is the financial condition of the District as a result of the year's activities. The District-Wide Financial Statements report information about the District as a whole and about its activities by using the accrual basis of accounting similar to those used by private-sector companies. The two required District-Wide Financial Statements are the *Statement of Net Assets* and the *Statement of Activities*. The *Statements of Net Assets* includes all of the District's assets and liabilities. The *Statement of Activities* includes all of the current year's revenues and expenditures regardless of when cash is received or paid.

Net Assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, **increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively** (see charted titled Net Assets 2004 – 2007). The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional non-financial factors such as the quality of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

In the District-Wide Financial Statements, the Statement of Activities is divided into two categories:

- Governmental activities: The District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid and grants finance these activities.
- Business-type activities: The District does not have any activities reported as business-type activities.

Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition, no asset is reported and the issuance of debt is recorded as a financial resource. The current year's payment of principal and interest on long-term obligations are recorded as expenditures, however, future year's debt obligations are not recorded. The Fund Financial Statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the following fund types and related activities are described as follows:

Governmental Funds – All of the District's services are reported in governmental funds, which include the general fund, food service fund, athletic fund, capital projects fund, and debt service fund. They focus on how money flows into and out of those funds and the remaining balances at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the 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 that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations.

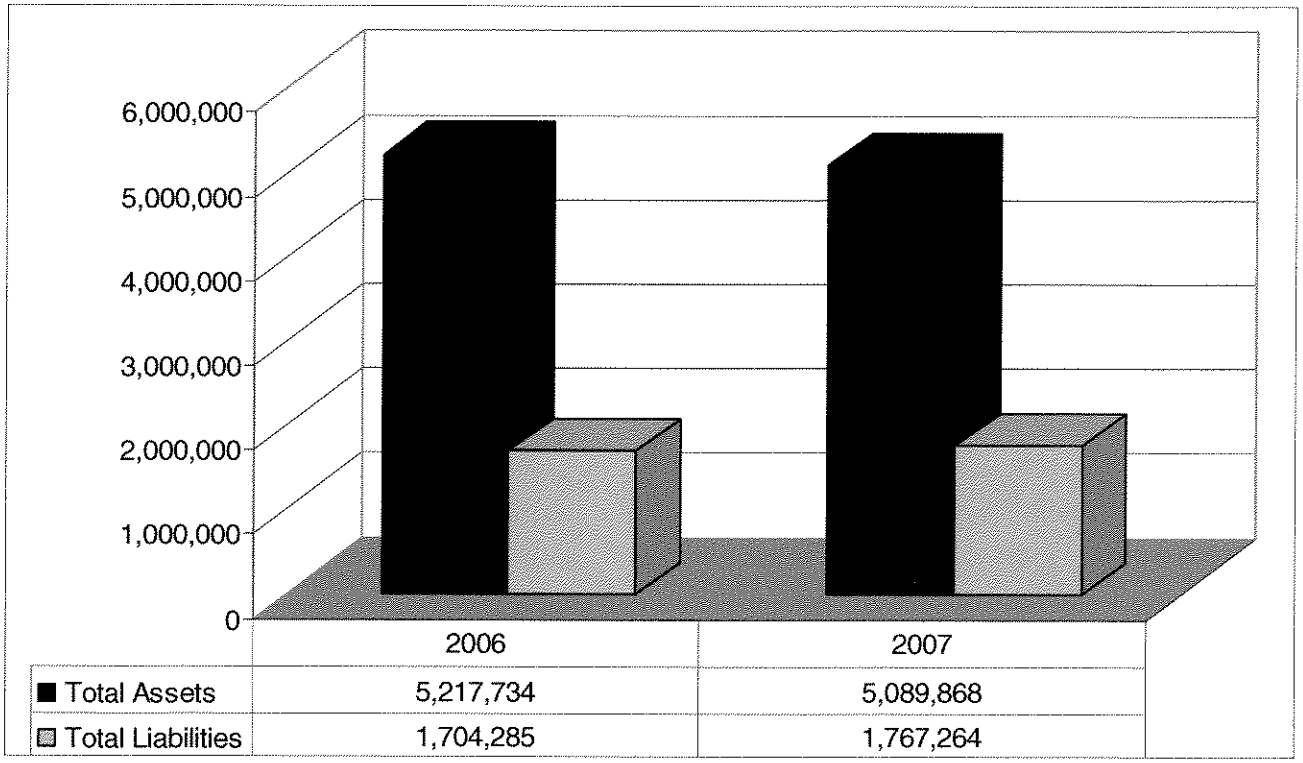
Financial Analysis of the District as a Whole

The condensed Statement of Net Assets as of June 30, 2007 and 2006 is as follows:

	Governmental Activities	
	2007	2006
Current Assets	$3,540,134	$3,508,002
Capital Assets, Net	1,549,734	1,709,732
Total Assets	$5,089,868	$5,217,734
Current Liabilities	$1,297,903	1,285,027
Non-current Liabilities	469,361	419,258
Total Liabilities	$1,767,264	$1,704,285
Investment in Capital Assets, Net of Related Debt	$1,347,127	$1,507,125
	1,975,477	2,006,324
Total Net Assets	$3,322,604	$3,513,449

The District's net assets were $3,322,604 at June 30, 2007. Capital assets, net of related debt totaling $1,347,127 compares the original cost, less depreciation of the District's capital assets to long-term debt. The remaining amount of net assets of $1,975,477 was unreserved and 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 unreserved net assets from year to year.

Assets and Liabilities 2005 vs. 2006 – Statement of Net Assets



The results of this year's operation for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net assets for fiscal year 2007.

The condensed Statement of Activities for the fiscal year ended June 30, 2007 and 2006 is as follows:

	Governmental Activities	
	2007	2006
Revenues:		
Program Revenues:		
Charges for services	$306,072	$260,094
Operating grants and contributions	2,679,449	2,536,112
General Revenues:		
Property taxes, levied for general purposes	1,490,196	1,466,556
State of Michigan aid, unrestricted	8,491,654	8,294,611
Investment and investment earnings	96,954	52,613
Other	109,170	51,799
Total Revenues	13,173,495	12,661,785

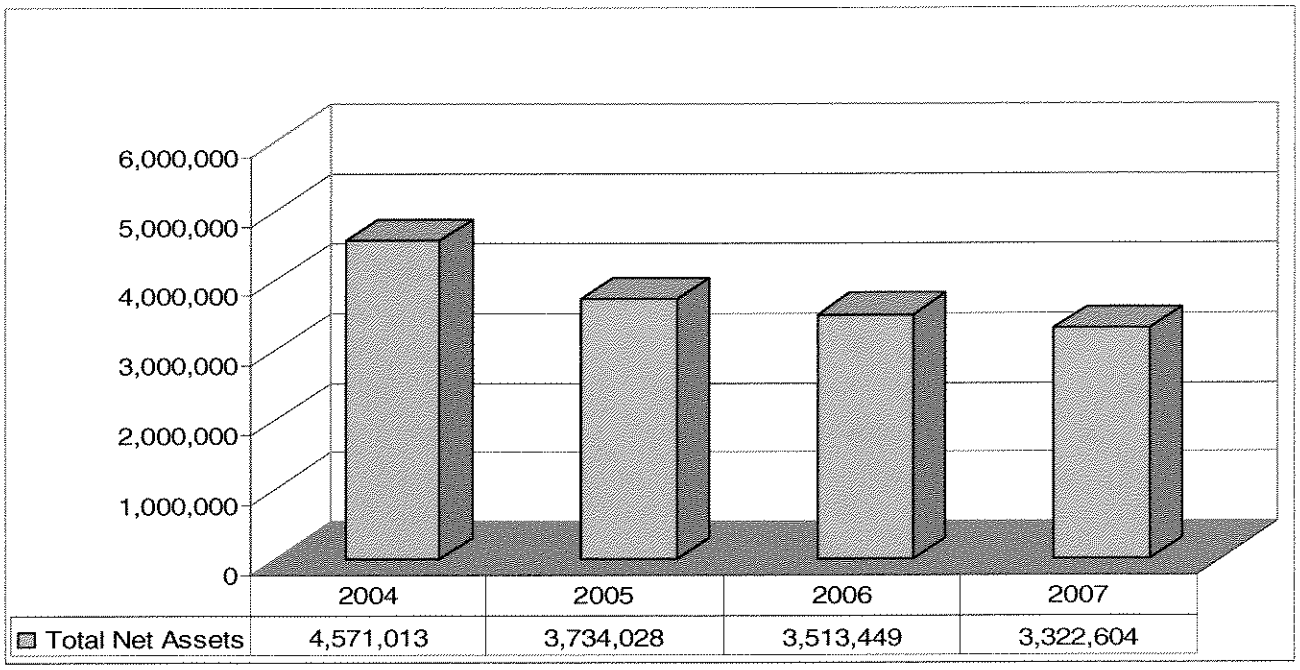
	Governmental Activities	
	2007	2006
Program Expenses:		
Instruction and instructional support	$7,587,998	$7,165,084
Support services	4,617,568	4,565,298
Food services	561,554	526,803
Athletics	275,912	246,738
Capital projects	1,135	38,218
Community services	74,620	73,995
Interest on long-term debt	-	9,082
Payments to other governmental units	10,857	18,378
Depreciation (unallocated)	234,696	238,768
Total Expenses	13,364,340	12,882,364
Changes in Net Assets	(190,845)	(220,579)
Beginning Net Assets, as restated	3,513,449	3,734,028
Ending Net Assets	$3,322,604	$3,513,449

As reported in the Statement of Activities, the cost of all our governmental activities this year was $13,364,340. Certain activities were partially funded from those who benefited from the programs ($306,072) or by other governments and organizations that subsidized certain programs with grants and categoricals ($2,679,449). We paid for the remaining "public benefit" portion of our governmental activities with $8,491,654 in State Foundation Allowance, $1,490,196 in taxes, and other revenues/sources, such as interest, general entitlements and fund balance.

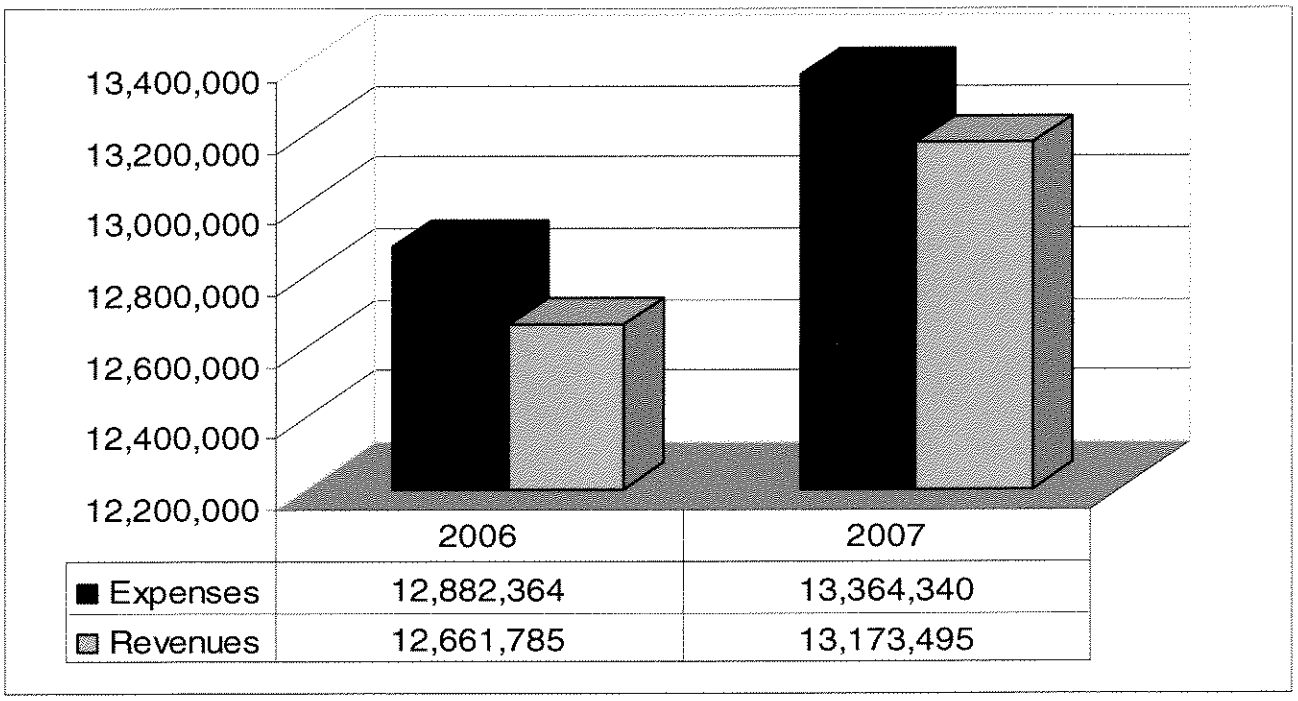
The District experienced a decrease in net assets for the year of $190,845. Key reasons for the change in net assets were as follows:

- Net increase in governmental fund balances of $ 1,860
- Depreciation charged to expense in the amount of $ (234,696)
- Purchase of capital assets in the amount of $ 101,065
- Original cost of sold assets in the amount of $ (194,896)
- The accumulated depreciation associated with sold assets was $ 168,529
- Compensated absences not reported as expenditures in the amount of $ (32,707)

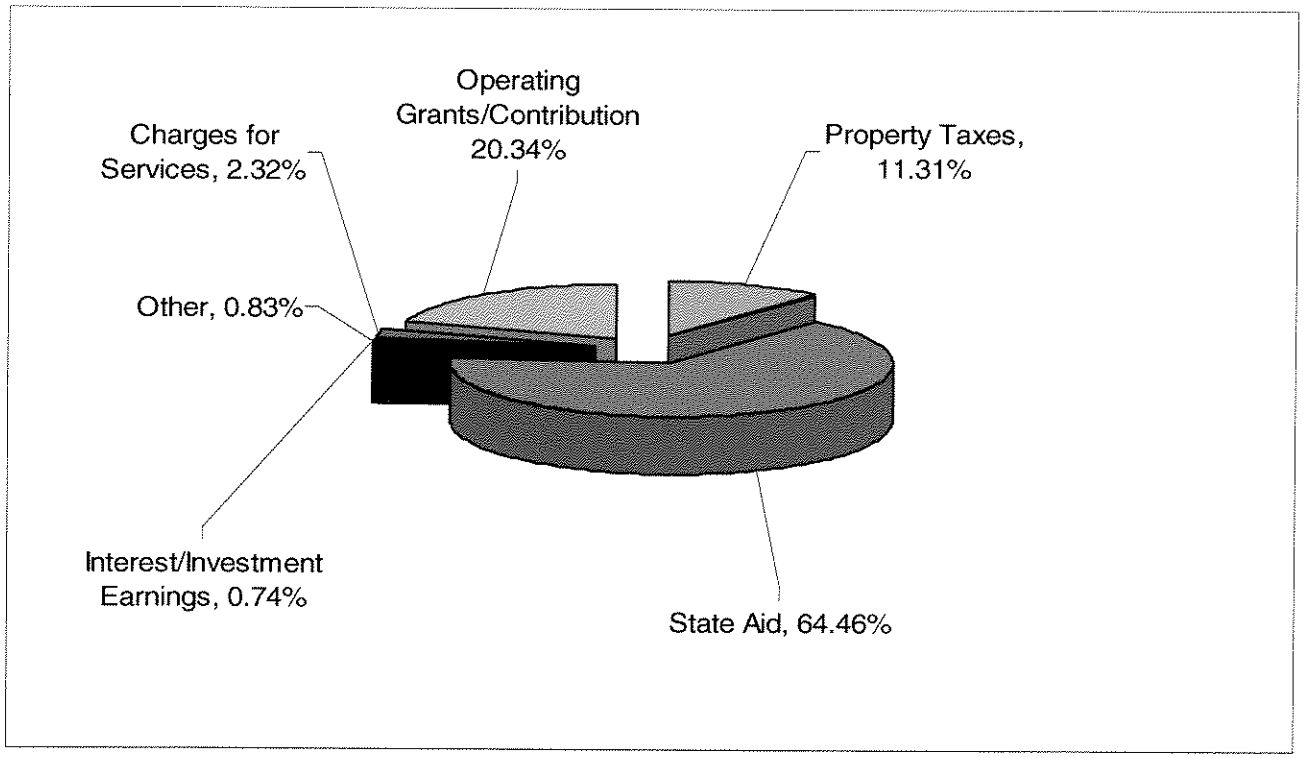
Net Assets 2004 – 2007



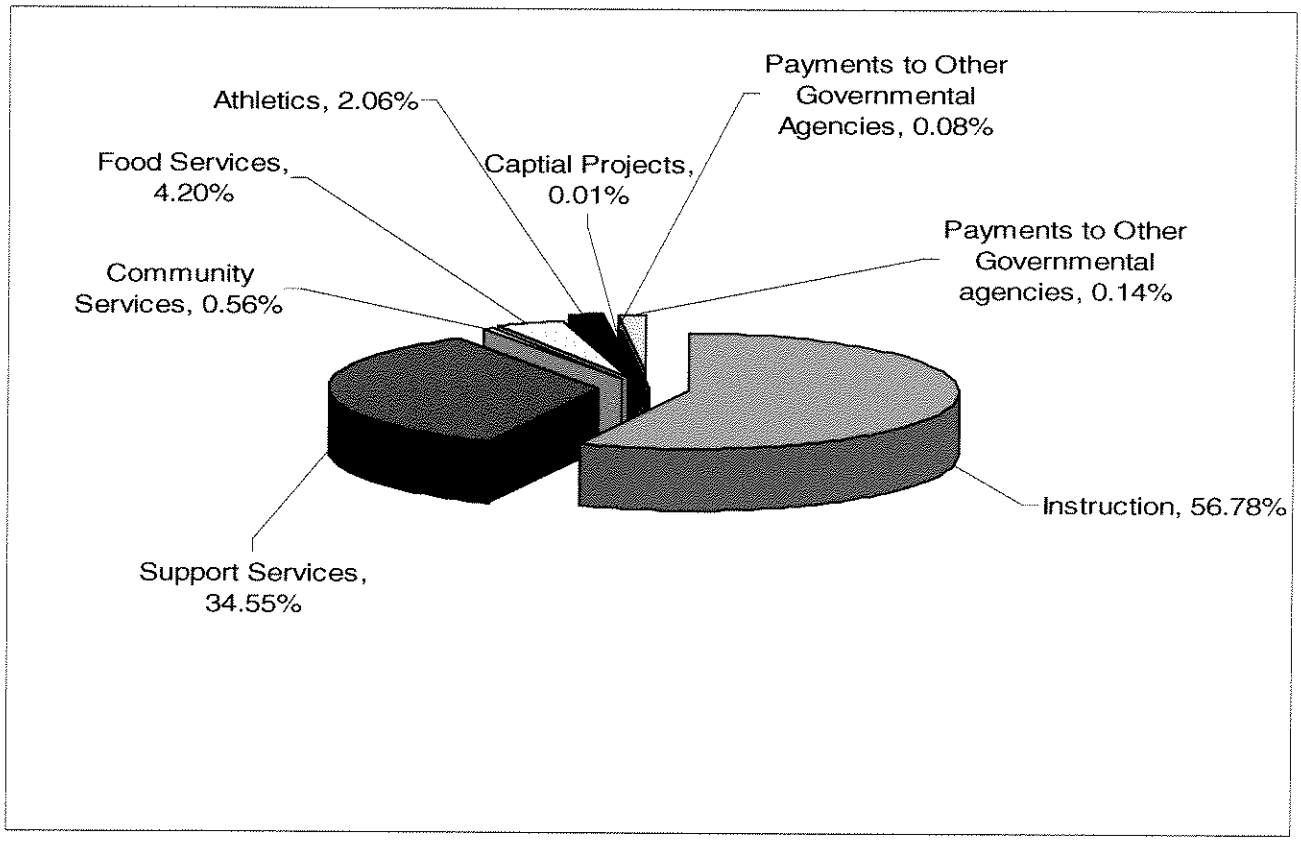
Revenues and Expenses 2006 vs. 2007 – Statement of Activities



Sources of Revenues for Fiscal Year 2007 – Statement of Activities



Expenses for Fiscal Year 2007 – Statement of Activities



The following table presents the cost of each of the District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). Total costs were $13,364,340; however, the following table excludes $246,688 of costs related to depreciation (234,696), capital projects (1,135) and transfers to other governmental units (10,857).

	Total Cost of Services		Net Cost of Services	
Governmental Activities	2007	2006	2007	2006
Instruction	$7,587,998	$7,165,084	$5,448,677	$5,066,291
Support Services	4,617,568	4,565,298	4,398,854	4,559,769
Food Services	561,554	526,803	13,828	(64,357)
Athletics	275,912	246,738	205,067	180,605
Community Services	74,620	73,995	65,705	73,995
Totals	$13,117,652	$12,577,918	$10,132,131	$9,816,303

The net cost shows the financial burden that each function placed on the District's operations, taxpayers and State. Since property taxes for operations and unrestricted State Aid constitutes 65% of the District's operating revenue sources (as shown in the pie chart), the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with the State-prescribed available financial resources.

Financial Analysis of the District's Funds

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

As the District completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of $2,242,231, an increase of $1,860 from the beginning of the year. The change in the combined fund balance was primarily due to the increase of reserved fund balance in the Capital Projects Fund in the amount of $ 148,865. The decision to reserve the capital projects fund balance and carry it over to the 2007-2008 school year was so that it could be used in the high school roof replacement project.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve the original budget for the upcoming fiscal year prior to the start of its fiscal year, which is July 1. Over the course of the year, the District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For fiscal year 2007, the budget was amended in February 2007 and again in June 2007. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the General Fund original and amended budgets included the following:

- Used the 3-year average of student count due to declining enrollment
- Increased the foundation grant to actual and added categoricals: Equity Payment and Middle School Math
- Updated all grant allocations
- Increased interest income and special education payments from MARESA
- Reduced indirect cost transfer from Food Service Fund
- Decreased operations & maintenance, transportation and administration budgets due to private contract for services, layoffs and changes in insurance plans, respectively.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007 and 2006, the District had $7,984,731 and 8,078,562, respectively invested in a variety of capital assets including land, buildings, and machinery and equipment.

Capital Assets at Year-End		Governmental Activities 2007	2006
Land		$37,293	$37,293
Building and Grounds		5,844,238	5,844,238
Site Improvements		342,300	342,300
Machinery and Equipment		628,186	686,464
Vehicles		1,132,714	1,168,267
	Totals	$7,984,731	$8,078,562

This year's addition of $101,065 included 1 new bus computers. No debt was issued for these additions.

The district has applied for a Qualified Zone Academy Bond in the amount of $2,000,000 so it is anticipated that capital additions for the 2007-2008 fiscal year will increase greatly, namely in site improvements and machinery & equipment, should we be approved. We present more detailed information about our capital assets in the notes (Note G) to the financial statements.

Debt

At June 30, 2007 and 2006, the School District had $202,607 in the School Improvement Bond, Series 1998.

Outstanding Debt at Year-End		Governmental Activities 2007	2006
School Improvement Bonds		$202,607	$202,607
	Totals	$202,607	$202,607

There was no change from 2006 because the MMBA altered the payment schedule. We present more detailed information about our long-term debt in the notes (note F) to the financial statements.

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when setting the District's fiscal year 2008 budget. One of the most important factors affecting the budget is our student count. Generally, State Aid is determined by multiplying the blended student count (25% of the previous February and 75% of the current September count) by the foundation allowance per pupil. However, since the district is located in a rural area (less than 4.5 pupils per square miles) and is small (less than 1,550 pupils) we were able to use our 3-year average blend, which is the current year blend (25% of the February 2007 and 75% of September 2007 counts) plus the two immediately preceding years blend. The 2008 fiscal year budget, adopted in June 2007, was based on an estimate that 1,377 students will be enrolled in September 2007 and no increase in foundation allowance. Understand this: **over half of the District's General Fund revenues are based on an estimate at the time of adoption** (student enrollment and foundation allowance).

Assuming the state determines the amount of foundation allowance in a timely manner, these estimates do not become facts until the end of the 3rd month of operations when an official pupil count is taken. However, since the legislature has not yet adopted a budget for fiscal year 2008, which includes school funding, it is possible to be in the 4th or 5th month of operations before a final revenue budget can be determined. Under State law, the District cannot assess additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operation. But without a balanced approach of budget cuts and revenue enhancements the state will not even be able to fund school districts at last year's level.

Over the summer the District's board of education reduced the 2007-2008 deficit of $819,021 through reductions in teaching staff, administration, support hours and bus stops. In addition, contracts were settled with the teacher, teacher's aide and administration unions with an overwhelming spirit of cooperation resulting in further deficit reductions.

This year it was necessary to borrow $1,500,000 from the MMBA to bridge the cash flow gap, primarily due to the timing in state aid payments and the high school roof project. This is $900,000 more than last year and will cost the district approximately $50,000 in interest. The loan is scheduled to be paid in full in August of 2008.

The Board of Education in conjunction with concerned citizens placed a bond proposal on the February 2007 ballot to finance an exhaustive list of needed capital improvements; however, the proposal was not approved. Since then we have gone forward with our most pressing needs, using fund balance to finance the projects. This has serious consequences to the financial health of the district. A financially sound district is one the routinely balances its budget and does not have to borrow to pay normal reoccurring bills.

The district has recently applied for a Qualified Zone Academy Bond in the amount of $2,000,000. If approved, it will allow us to make the necessary renovations with no/low interest bond and repay it over 15 years. This will significantly improve the outlook for the district not only from a facility standpoint but will reduce the amount necessary to be borrowed next year and allow us to possibly balance the budget in the near future.

Contacting the District's Financial Management

This financial report is designed to provide the district's citizens, taxpayers and parents with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Gwinn Area Community Schools, 50 W. M-35, Gwinn MI, 49841.

GWINN AREA COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2007

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	$ 660,091
Investments	736,079
Receivables:	
Accounts receivable	40,637
Due from other governmental units	1,997,923
Inventories	7,612
Prepaid expense	97,792
TOTAL CURRENT ASSETS	3,540,134
Non-current assets:	
Land and construction in progress	37,293
Capital assets	7,947,438
Less accumulated depreciation	(6,434,997)
TOTAL NON-CURRENT ASSETS	1,549,734
TOTAL ASSETS	5,089,868
LIABILITIES:	
Current liabilities:	
Accounts payable	95,989
Due to other governmental units	292,315
Accrued liabilities	857,843
Deferred revenue	43,938
Current portion of long term debt obligations	7,818
TOTAL CURRENT LIABILITIES	1,297,903
Non-current liabilities:	
Non-current portion of employee benefit obligations	266,754
Non-current portion of long term debt obligations	202,607
TOTAL NON-CURRENT LIABILITIES	469,361
TOTAL LIABILITIES	1,767,264
NET ASSETS:	
Invested in capital assets net of related debt	1,347,127
Unrestricted	1,975,477
TOTAL NET ASSETS	$ 3,322,604

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2007

Function / Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Instruction	$ 7,587,998	$ 38,097	$ 2,101,224	$ (5,448,677)
Supporting services	4,617,568	23,542	195,172	(4,398,854)
Community Services	74,620	-	8,915	(65,705)
Food service activities	561,554	178,488	369,238	(13,828)
Athletic activities	275,912	65,945	4,900	(205,067)
Capital Outlay	1,135	-	-	(1,135)
Payments to other governmental agencies	10,857	-	-	(10,857)
Depreciation - unallocated	234,696	-	-	(234,696)
TOTAL GOVERNMENTAL ACTIVITIES	13,364,340	306,072	2,679,449	(10,378,819)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	1,490,196
State aid not restricted to specific purposes:	8,491,654
Interest and investment earnings	96,954
Miscellaneous	109,170
TOTAL GENERAL REVENUE AND TRANSFERS	10,187,974
CHANGES IN NET ASSETS	(190,845)
Net Assets , July 1	3,513,449
NET ASSETS, JUNE 30	$ 3,322,604

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Balance Sheet

June 30, 2007

	General Fund	Non-Major Governmental Funds	Total
ASSETS			
Cash and cash equivalents	$ 445,611	$ 214,480	$ 660,091
Investments	694,202	41,877	736,079
Receivables:			
Accounts receivable	40,562	75	40,637
Due from other funds	60,588	-	60,588
Due from other governmental units	1,990,098	7,825	1,997,923
Inventories	5,347	2,265	7,612
Other	97,792	-	97,792
TOTAL ASSETS	$ 3,334,200	$ 266,522	$ 3,600,722
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 39,273	$ 292	$ 39,565
Accrued liabilities	2,220	-	2,220
Accrued expenditures	863,441	-	863,441
Due to other funds	-	117,012	117,012
Due to other governmental units	292,315	-	292,315
Deferred revenue	43,938	-	43,938
TOTAL LIABILITIES	1,241,187	117,304	1,358,491
FUND BALANCES:			
Reserved for:			
School service activities	-	353	353
Capital projects	-	148,865	148,865
Unreserved:			
Undesignated	2,093,013	-	2,093,013
TOTAL FUND BALANCES	2,093,013	149,218	2,242,231
TOTAL LIABILITIES AND FUND BALANCES	$ 3,334,200	$ 266,522	$ 3,600,722

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2006

Total Fund Balances for Governmental Funds		$	2,242,231
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Cost of capital assets	7,984,731		
Accumulated depreciation	(6,434,997)		
			1,549,734
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:			
Bonds payable - long term	202,607		
Employee benefits payable	266,754		
			(469,361)
NET ASSETS OF GOVERNMENTAL ACTIVITIES		**$**	**3,322,604**

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	General Fund	Non-Major Governmental Funds	Total
REVENUES:			
Local sources	$ 1,854,990	$ 249,333	$ 2,104,323
State Aid	9,557,971	25,388	9,583,359
Federal sources	573,863	337,250	911,113
Other	574,700	-	574,700
TOTAL REVENUES	12,561,524	611,971	13,173,495
EXPENDITURES:			
Current:			
Instruction	7,566,754	-	7,566,754
Supporting services	4,680,803	-	4,680,803
Community services	74,620	-	74,620
Other	10,857	-	10,857
Food service activities	-	561,554	561,554
Athletic activities	-	275,912	275,912
Capital Outlay	-	1,135	1,135
TOTAL EXPENDITURES	12,333,034	838,601	13,171,635
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	228,490	(226,630)	1,860
OTHER FINANCING SOURCES (USES):			
Transfers in	32,544	378,392	410,936
Transfers out	(378,392)	(32,544)	(410,936)
TOTAL OTHER FINANCING SOURCES (USES)	(345,848)	345,848	-
NET CHANGE IN FUND BALANCES	(117,358)	119,218	1,860
Fund Balance, July 1	2,210,371	30,000	2,240,371
FUND BALANCE, JUNE 30	$ 2,093,013	$ 149,218	$ 2,242,231

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds		$ 1,860
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Depreciation expense	(234,696)	
Capital outlays net or retirements	74,698	(159,998)
Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in sick and vacation leave	(32,707)	(32,707)
Change in Net Assets of Governmental Activities		$ (190,845)

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2007

		Private Purpose Trust Fund
ASSETS		
Investments		$ 52,354
Due from other funds		19,063
	TOTAL ASSETS	$ 71,417
NET ASSETS:		
Reserved for:		
Scholarships		52,354
Unreserved		
Designated for scholarships		19,063
	TOTAL NET ASSETS	$ 71,417

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2007

	Private Purpose Trust Fund
ADDITIONS:	
Interest	$ 2,726
Unrealized gain on investments	3,744
TOTAL ADDITIONS	6,470
DEDUCTIONS:	
Scholarships awarded	1,845
TOTAL DEDUCTIONS	1,845
CHANGE IN NET ASSETS	4,625
Net Assets, July 1	66,792
NET ASSETS, JUNE 30	$ 71,417

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2007

		Student Activities
ASSETS		
Cash and cash equivalents	$	80,744
Accounts receivable		108
Due from other funds		37,361
TOTAL ASSETS	$	118,213
LIABILITIES:		
Accounts payable	$	1,006
Due to student groups		117,207
TOTAL LIABILITIES	$	118,213

The accompanying notes are an integral part of these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statement of the Gwinn Area Community Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that does not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the School District are discussed below.

Reporting entity

The School District provides elementary and secondary education for the residents of Forsyth, Sands, West Branch and Skandia Townships, and secondary education for the residents of Wells Township. A seven-member Board of Education elected by the public has oversight responsibility over all operations of the School District.

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority; the designation of management; the ability to significantly influence operations; and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the Gwinn Area Community Schools contain all the funds and account groups controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District not is the School District a component unit of another entity.

Basic Financial Statements – Government-Wide Financial Statements

The School District's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School District's instruction, support and community services are classified as governmental activities. The School District does not have any business-type activities. Fiduciary activities are not included in the government-wide financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported as either investment in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

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

Basic Financial Statements -- Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

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

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue funds for the Gwinn Area Community Schools are the Food Service, Athletics and Public Library Funds.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources of major capital expenditures, including equipment.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fiduciary Funds

Agency Fund – The Agency Fund accounts for all assets held by the School District in a custodial capacity for various student organizations. Since the Agency Fund is custodial in nature, they do not involve the measurement of results of operations.

Nonexpendable Trust Funds – Nonexpendable Trust Funds are those whose principal cannot be expended. The administration of the School District treats the Scholarship Fund as nonexpendable due to restrictions of outside contributors.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The District will first apply restricted net assets for expenses incurred for purposes for which both restricted and unrestricted net assets are available.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

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 actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Debt
In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences
The School District' policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

Deferred Revenues
In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of $43,938 in the General Fund for grant funding that has been received but is unearned.

Equity Classification
District-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.

3. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements
Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the district-wide statements.

Revenues
District-Wide Statements
In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements
In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes
Property taxes are levied December 1, on behalf of the District by various taxing units and are payable without penalty by February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.) Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures
District-Wide Statements
In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements
In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

In the proprietary fund financial statements, expenses are classified by operating and nonoperating and are sub-classified by function such as personnel services and other services and charges.

Interfund Activity
As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting
The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
b. Public hearings are conducted to obtain taxpayer comments.
c. Prior to July 1, the budget is approved by the Board of Education.
d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
e. All annual appropriations lapse at fiscal year end.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents
As of June 30, 2007, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	$660,091	$80,744	$740,835
Investments	736,079	52,354	788,433
	$1,396,170	$133,098	$1,529,268

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require it but the District has a deposit policy for custodial credit risk. As of June 30, 2007, $1,291,475 of the District's bank balance of $1,394,399 was exposed to custodial credit risk as being uninsured and uncollateralized.

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

		Maturities
Investment Type	Fair Value	Maturities Less Than 1 Year
MILAF Funds	$736,079	$736,079
Wells Fargo Mutual Fund	52,354	52,354
TOTAL INVESTMENTS	$788,433	$788,433

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk
Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has an investment policy that would further limit its investment choices. Ratings are not required for the District's investment in Treasury Notes. The District's investments are in accordance with statutory authority.

Concentration of Credit Risk
The District places no limit on the amount the District may invest in any one issuer.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments consist of $1,571,458 due from the State of Michigan for State Aid.

NOTE D – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2007 is as follows:

	Governmental Activities
Accrued wages	$623,432
MESSA payable	232,190
Accrued fringes	2,221
	$857,843

NOTE E – SHORT-TERM OBLIGATIONS:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposed due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Short-term debt:				
State anticipation note, 2006-2007	$-	$600,000	$511,114	$88,886
TOTAL	$-	$600,000	$511,114	$88,886

NOTE F – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2007, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
School Improvement Bonds – Series 1998	$202,607	$ -	$-	$202,607
Subtotal	202,607	-	-	202,607
Employee Benefits	234,047	32,707	-	266,754
TOTAL LONG-TERM DEBT	$436,654	$32,707	$-	$469,361

The annual debt service requirements for the School District's debt (excluding compensated absences) for the years ending June 30, 2007 through June 30, 2017 are as follows:

BONDS PAYABLE

The School District participated in the School Improvement Bond, Series 1998, to obtain one-half of their portion of the statewide Durant Settlement. As part of the settlement, the School District will receive one-half of their total settlement $686,265 over a ten-year period. The remaining one-half of the settlement was received in bond proceeds. The debt service requirements of the bonds will be allocated to the School District by the State of Michigan over a fifteen-year period beginning May 15, 1999, as part of their state aid payments. A schedule of the School District's repayment schedule is as follows:

	School Improvement Bonds		
	May 15		
School Year	Interest	Principal	Total
2007-2008	$-	$-	$-
2008-2009	5,000	19,096	24,096
2009-2010	44,297	117,600	161,897
2010-2011	3,138	20,958	24,096
2011-2012	2,140	21,954	24,094
2013	1,095	22,999	24,094
Totals	$55,670	$202,607	$258,277

NOTE F – EMPLOYEE BENEFITS – COMPENSATED ABSENCES:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. Teachers meeting the requirements for retirement are paid $60 per day up to 120 days of unused accumulated sick leave. Other non-teaching employees are paid for sick leave based on their appropriate contract.

As of June 30, 2007 composition of the liability for employee benefits as reported in the statement of net assets is as follows:

Paid time off – Teamsters	$122,425
Sick leave – Central office & teachers	129,274
Personal Leave - Principals	3,200
Vacation – Central office	19,673
	$274,572

NOTE F – EMPLOYEE BENEFITS – COMPENSATED ABSENCES (Continued):

The liability has been recognized as follows:

Current portion	$7,818
Long-term portion	266,754
	$274,572

The current portion is recorded as a liability in the General Fund and is included with accrued liabilities.

NOTE G – CAPITAL ASSETS:

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

	Balance 7/01/06	Additions/ Adjustments	Deductions	Balance 6/30/07
Governmental Activities:				
Capital assets not being depreciated:				
Land	$37,293	$ -	$ -	$37,293
Capital assets being depreciated:				
Site improvements	342,300	-	-	342,300
Buildings	5,844,238	-	-	5,844,238
Equipment	686,464	37,830	96,108	628,186
Vehicles and buses	1,168,267	63,235	98,788	1,132,714
Total Capital Assets	8,078,562	101,065	194,896	7,984,731
Less accumulated depreciation:				
Site improvements	342,300	-	-	342,300
Buildings	4,504,794	145,856	-	4,650,650
Equipment	534,677	37,181	69,740	502,118
Vehicle and buses	987,059	51,659	98,788	939,930
Total Accumulated Depreciation	6,368,830	234,696	168,528	6,434,998
Governmental Activities Capital Assets, Net	$1,709,732	$(133,631)	$(26,368)	$1,549,733

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	$234,696
Total Governmental Activities Depreciation Expense	$234,696

NOTE H – RESERVED AND DESIGNATED FUND BALANCE:

The School District reserves fund equities for the following funds:

School Lunch Fund – The resources of the School Lunch Fund are to be used for the school lunch program. The fund equity is reserved for this purpose.

Scholarship Income: The School District reserves fund balance for the nonexpendable gifts received in the Scholarship Fund. Only the investment income from these gifts is to be used for scholarships.

Unexpended Investment Income on Scholarship Funds: Interest and dividends received on Scholarship Fund investments are to be used for scholarship awards to students. The accumulated balance of unexpended investment income is designated for scholarships.

NOTE I – STATE REVENUE:

The State of Michigan currently uses 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. Revenue 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 a blended count of pupil membership.

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 11 payments from October 2006 - August 2007.

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

NOTE J – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

	Operating Transfers In		Operating Transfers Out
General Fund	$32,544	General Fund	$378,392
School Lunch Fund	6,660	School Lunch Fund	15,879
Athletic Fund	221,732	Athletic Fund	16,665
Capital Projects Fund	150,000	Capital Projects Fund	-
Total	$410,936	Total	$410,936

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE K – NONMONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized $23,541 during fiscal 2007 in revenues and expenditures for USDA commodities.

NOTE L – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2006 totaled $214,660,415 ($110,691,058 designated as Homestead and $103,969,357 designated as Non-Homestead). The total tax levy consists of 18 mills for the General Fund.

NOTE M – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 16.34% of covered compensation to the Plan through September 30, 2006 and 17.74% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2007 was $1,369,597 which consisted of $1,161,668 from the School District and $207,930 from employees electing the MIP option. These represent approximately 17% and 3% of total payroll, respectively. The School District's contributions to MPSERS for 2006 and 2005 were $1,297,303 and $994,065.

Payroll paid to employees covered by the System for the year ended June 30, 2007 was approximately $5,376,727. The School District's total payroll was approximately $6,813,124.

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 coverage's contribute an amount equivalent to the monthly cost of 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 District's total contribution to the MPSERS plan discussed above.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS, at MPSERS, P.O. Box 30673, Lansing, Michigan, 48909-8103.

NOTE N – CONTINGENT LIABILITIES:

Grant Assistance
The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management
The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District, together with approximately 334 other school districts in the State, participate in the MASB-SEG Property/Casualty Pool, Inc., (Pool) a governmental group property and casualty self-insurance pool. The School District pays an annual premium to the Pool for its general insurance, workers' compensation, and errors and omissions coverage. Members' contributions to the Pool may assess members a supplemental assessment in the event of deficiencies.

The Pool limits the maximum net loss that may arise from large risks or risks in concentrated areas of exposure by re-insuring certain levels of risk with other insurers or re-insurers. The School District's comprehensive and fleet insurance coverage is limited to a maximum of $6,000,000 per occurrence of all claims. The School District also maintains an additional $1,000,000 per occurrence for excess liability coverage. The Pool is responsible for paying costs up to the insurance limits with any additional costs covered by the School District.

Management is unaware of any pending or threatened claims that are not covered by the Pool that would be material to the financial statements.

NOTE O – ECONOMIC DEPENDENCY:

The School District received approximately 80 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Gwinn. The District's Foundation Allowance is set by the state and includes the local contribution from Non Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

NOTE P – INTERFUND RECEIVABLE AND PAYABLES:

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows.

	Interfund Receivable		Interfund Payable
General Fund	$ 60,588	General Fund	$-
School Lunch Fund	-	School Lunch Fund	110,920
Athletic Fund	-	Athletic Fund	6,092
Private Purpose Trust	19,063	Private Purpose Trust	-
Student Activities	37,361	Student Activities	-
TOTAL	$117,012	TOTAL	$117,012

REQUIRED SUPPLEMENTAL INFORMATION

GWINN AREA COMMUNITY SCHOOLS

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	$ 2,188,323	$ 1,779,366	$ 1,854,990	$ (408,957)	$ 75,624
State sources	9,097,010	9,556,725	9,557,971	459,715	1,246
Federal sources	595,104	586,352	573,863	(8,752)	(12,489)
Other	373,000	571,678	574,700	198,678	3,022
TOTAL REVENUES	12,253,437	12,494,121	12,561,524	240,684	67,403
EXPENDITURES:					
Instruction:					
Basic Programs	5,712,870	5,630,945	5,580,711	81,925	50,234
Added Needs	2,070,853	2,011,494	1,986,043	59,359	25,451
Total Instruction	7,783,723	7,642,439	7,566,754	141,284	75,685
Supporting Services:					
Pupil services	495,656	509,489	497,425	(13,833)	12,064
Instructional staff	373,447	303,234	308,165	70,213	(4,931)
General administration	359,688	394,910	386,544	(35,222)	8,366
School administration	892,707	863,661	857,823	29,046	5,838
Fiscal services	212,760	339,978	383,513	(127,218)	(43,535)
Operation and maintenance	1,549,804	1,360,531	1,289,480	189,273	71,051
Transportation	810,086	786,466	767,001	23,620	19,465
Central	173,901	171,366	190,412	2,535	(19,046)
Other	430	440	440	(10)	-
Total Supporting Services	4,868,479	4,730,075	4,680,803	138,404	49,272
Community Services	96,266	76,452	74,620	19,814	1,832
Other	14,291	10,857	10,857	3,434	-
TOTAL EXPENDITURES	12,762,759	12,459,823	12,333,034	302,936	126,789
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(509,322)	34,298	228,490	543,620	194,192
OTHER FINANCING SOURCES (USES)					
Transfers in	66,000	27,067	32,544	(38,933)	5,477
Transfers out	(380,914)	(379,342)	(378,392)	1,572	950
TOTAL OTHER FINANCING SOURCES (USES)	(314,914)	(352,275)	(345,848)	(37,361)	6,427
NET CHANGE IN FUND BALANCE	(824,235)	(317,980)	(117,358)	506,259	200,619
Fund Balance, July 1	2,210,371	2,210,371	2,210,371	-	-
FUND BALANCE, JUNE 30	$ 1,386,136	$ 1,892,391	$ 2,093,013	$ 506,259	$ 200,619

SUPPLEMENTAL INFORMATION

GWINN AREA COMMUNITY SCHOOLS

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2007

	Special Revenue	Capital Projects	Total
ASSETS			
Cash and cash equivalents	$ 65,615	$ 148,865	$ 214,480
Investments	41,877	-	41,877
Accounts receivable	75	-	75
Due from other governmental units	7,825	-	7,825
Inventory	2,265	-	2,265
TOTAL ASSETS	$ 117,657	$ 148,865	$ 266,522
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 292	$ -	$ 292
Due to other funds	117,012	-	117,012
TOTAL LIABILITIES	117,304	-	117,304
FUND BALANCES:			
Reserved for:			
School service activities	353	-	353
Capital projects	-	148,865	148,865
TOTAL FUND BALANCES	353	148,865	149,218
TOTAL LIABILITIES AND FUND BALANCES	$ 117,657	$ 148,865	$ 266,522

GWINN AREA COMMUNITY SCHOOLS

Non-Major Governmental Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	Special Revenue	Capital Projects	Total
REVENUES:			
School lunch activities	$ 178,488	$ -	$ 178,488
Athletic activities	70,845	-	70,845
State aid	25,388	-	25,388
Federal sources	337,250	-	337,250
TOTAL REVENUES	611,971	-	611,971
EXPENDITURES:			
School lunch activities	561,554	-	561,554
Athletic activities	275,912	-	275,912
Capital Outlay	-	1,135	1,135
TOTAL EXPENDITURES	837,466	1,135	838,601
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(225,495)	(1,135)	(226,630)
OTHER FINANCING SOURCES (USES):			
Transfers in	228,392	150,000	378,392
Transfers out	(32,544)	-	(32,544)
TOTAL OTHER FINANCING SOURCES (USES)	195,848	150,000	345,848
NET CHANGE IN FUND BALANCE	(29,647)	148,865	119,218
Fund Balance, July 1	30,000	-	30,000
FUND BALANCE, JUNE 30	$ 353	$ 148,865	$ 149,218

GWINN AREA COMMUNITY SCHOOLS

Non-Major Special Revenue Funds

Combining Balance Sheet

June 30, 2007

	School Lunch Fund	Athletic Fund	Total
ASSETS			
Cash and cash equivalents	$ 59,296	$ 6,319	$ 65,615
Investments	41,877	-	$ 41,877
Accounts receivable	25	50	75
Due from other governmental units	7,825	-	7,825
Inventory	2,265	-	2,265
TOTAL ASSETS	$ 111,288	$ 6,369	$ 117,657
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 15	$ 277	$ 292
Due to other funds	110,920	6,092	117,012
TOTAL LIABILITIES	110,935	6,369	117,304
FUND BALANCES:			
Reserved for school service activities	353	-	353
TOTAL LIABILITIES AND FUND BALANCES	$ 111,288	$ 6,369	$ 117,657

GWINN AREA COMMUNITY SCHOOLS

Non-Major Special Revenue Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	School Lunch Fund	Athletic Fund	Total
REVENUES:			
Athletic activities	$ -	$ 70,845	$ 70,845
School lunch activities	178,488	-	178,488
State aid	25,388	-	25,388
Federal sources	337,250	-	337,250
TOTAL REVENUES	541,126	70,845	611,971
EXPENDITURES:			
School lunch activities	561,554	-	561,554
Athletic activities	-	275,912	275,912
TOTAL EXPENDITURES	561,554	275,912	837,466
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(20,428)	(205,067)	(225,495)
OTHER FINANCING SOURCES (USES):			
Transfers in	6,660	221,732	228,392
Transfers out	(15,879)	(16,665)	(32,544)
TOTAL OTHER FINANCING SOURCES (USES)	(9,219)	205,067	195,848
NET CHANGE IN FUND BALANCE	(29,647)	-	(29,647)
Fund Balance, July 1	30,000	-	30,000
FUND BALANCE, JUNE 30	$ 353	$ -	$ 353

GWINN AREA COMMUNITY SCHOOLS

School Lunch Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	$ 178,465	$ 178,488	$ 23
State aid	27,211	25,388	(1,823)
Federal sources	340,949	337,250	(3,699)
TOTAL REVENUES	546,625	541,126	(5,499)
EXPENDITURES:			
School lunch activities:			
Salaries and fringe benefits	332,834	333,104	(270)
Purchased services	17,802	16,956	846
Supplies and materials and other expenses	215,587	211,494	4,093
TOTAL EXPENDITURES	566,223	561,554	4,669
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(19,598)	(20,428)	(830)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	6,660	6,660
Transfers out	(10,402)	(15,879)	(5,477)
TOTAL OTHER FINANCING SOURCES (USES):	(10,402)	(9,219)	1,183
NET CHANGE IN FUND BALANCE	(30,000)	(29,647)	353
Fund Balance, July 1	30,000	30,000	-
FUND BALANCE, JUNE 30	$ -	$ 353	$ 353

GWINN AREA COMMUNITY SCHOOLS

Athletic Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Athletic activities	$ 70,080	$ 70,845	$ 765
TOTAL REVENUES	70,080	70,845	765
EXPENDITURES:			
Athletic activities:			
Salaries and fringe benefits	170,447	170,390	57
Purchased services	81,102	82,421	(1,319)
Supplies and materials	24,548	23,101	1,447
TOTAL EXPENDITURES	276,097	275,912	185
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(206,017)	(205,067)	950
OTHER FINANCING SOURCES (USES):			
Transfers in	222,682	221,732	(950)
Transfers out	(16,665)	(16,665)	-
TOTAL OTHER FINANCING SOURCES (USES)	206,017	205,067	(950)
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	$ -	$ -	$ -

GWINN AREA COMMUNITY SCHOOLS

Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Miscellaneous	$ -	$ -	$ -
TOTAL REVENUES	-	-	-
EXPENDITURES:			
Capital Outlay	1,135	1,135	-
TOTAL EXPENDITURES	1,135	1,135	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,135)	(1,135)	-
OTHER FINANCING SOURCES (USES)			
Transfer in	150,000	150,000	-
TOTAL OTHER FINANCING SOURCES (USES)	150,000	150,000	-
NET CHANGE IN FUND BALANCE	148,865	148,865	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	$ 148,865	$ 148,865	$ -

COMPLIANCE SECTION

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA ROBERT J. DOWNS, CPA, CVA DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

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

Board of Education
Gwinn Area Community Schools
Gwinn, MI 49841

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools as of and for the year ended June 30, 2007, which collectively comprise the Gwinn Area Community Schools' basic financial statements and have issued our report thereon dated September 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gwinn Area Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gwinn Area Community Schools' financial statements that is more than inconsequential will not be prevented or detected by the Gwinn Area Community Schools' internal control.

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

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

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Board of Education
Gwinn Area Community Schools
Gwinn, MI 49841

Compliance and Other Matters

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

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2007

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA ROBERT J. DOWNS, CPA, CVA DANIEL E. BIANCHI, CPA

MICHIGAN
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KINROSS
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WISCONSIN
GREEN BAY
MILWAUKEE

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
Gwinn Area Community Schools
Gwinn, Michigan 49841

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Gwinn Area 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 on the Gwinn Area Community Schools' compliance with those requirements.

In our opinion, the Gwinn Area 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.

Internal Control Over Compliance

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

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Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

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 Gwinn Area Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gwinn Area Community Schools' financial statements that is more than inconsequential will not be prevented or detected by the Gwinn Area Community Schools' internal control.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that we consider to be material weaknesses, as defined above.

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

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

Anderson, Tackman + Company, PLC
Certified Public Accountants

September 10, 2007

GWINN AREA 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 Expenditure	Accrued (Deferred) Revenue July 1, 2006	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2007
U.S. Department of Agriculture:							
Passed through MDE:							
Summer Food Program	10.559	$ 11,084	$ 8,968	$ 4,400	$ 11,084	$ 11,398	$ 4,086
Nutrition Cluster:							
Passed through MDE:							
National School Lunch Program:							
Section 4 -Total Serving 1957 & 1958	10.555	35,419	38,269	-	35,419	35,419	-
Section 11 - Free and Reduced 1967 & 1968	10.555	192,971	213,112	-	192,971	192,971	-
TOTAL		228,390	251,381	-	228,390	228,390	-
National School Breakfast Program:							
Breakfast 1977 & 1978	10.553	74,233	87,461	-	74,233	74,233	-
TOTAL		74,233	87,461	-	74,233	74,233	-
Total Nutrition Cluster		302,623	338,842	-	302,623	302,623	-
Food Distribution:							
Entitlement Commodities	10.550	22,732	27,497	-	22,732	22,732	-
Bonus Commodities	10.550	809	4,877	-	809	809	-
TOTAL		23,541	32,374	-	23,541	23,541	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		337,248	380,184	4,400	337,248	337,562	4,086
U.S. Department of Education:							
Passed through Mich. Department of Education:							
ECIA Title I:							
051530 0506	84.010	31,305	31,305	-	-	-	-
061503 0504	84.010	327,018	327,018	-	-	-	-

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	(Deferred) Revenue July 1, 2006	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue June 30, 2007
061530 0607	84.010	$ 37,642	$ -	$ -	$ 37,642	$ 37,642	$ -
071530 0607	84.010	368,307	-	-	323,680	227,397	96,283
051530 0405	84.010	333,355	(13)	-	-	-	-
TOTAL		1,097,627	358,310	-	361,322	265,039	96,283
Service Provider Self-review							
070440 0607	84.027	4,500	-	-	1,616	1,627	(11)
ECIA Title V:							
060250 0506	84.298	11,541	11,541	-	-	-	-
070250 0607	84.298	5,732	-	-	5,732	5,732	-
TOTAL		17,273	11,541	-	5,732	5,732	-
ECIA Title VI Part B Subpart 2							
07660 0607	84.298	41,499	-	-	40,262	23,768	16,494
ECIA Title IID:							
074290 0607	84.318	3,781	-	-	3,781	3,781	-
064290 0506	84.318	6,803	6,803	-	-	-	-
TOTAL		10,584	6,803	-	3,781	3,781	-
Comprehensive School Reform							
041870 0405	84.332	270,940	54,373	-	-	-	-
ECIA Title IIA:							
050520 0506	84.367	5,467	5,467	-	-	-	-
060520 0506	84.367	58,568	58,568	1,660	-	1,660	-
060520 0607	84.367	40,757	-	-	40,757	40,757	-
070520 0607	84.367	99,524	-	-	46,862	14,452	32,410
050520 0405	84.367	96,097	(437)	-	-	-	-
TOTAL		300,413	63,598	1,660	87,619	56,869	32,410
TOTAL PASSED THROUGH MDE		1,742,836	494,625	1,660	500,332	356,816	145,176

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	(Deferred) Revenue July 1, 2006	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue June 30, 2007
Passed Through Marquette-Alger Regional Educational Services Agency (MARESA):							
P.L. 94-192 Flow Through - #060450 0506	84.027	$ 60,952	$ 60,952	$ 56,099	$ -	$ 56,099	$ -
P.L. 94-192 Flow Through - #070450 0607	84.027	65,084	-	-	63,962	34,606	29,356
TOTAL		126,036	60,952	56,099	63,962	90,705	29,356
Perkins - 05-06 6012-02	84.048	5,769	5,769	-	-	-	-
Perkins - 06-07 7012-02	84.048	5,702	-	-	5,702	5,702	-
TOTAL		11,471	5,769	-	5,702	5,702	-
Preschool #060460-0506	84.173	1,000	1,000	-	-	-	-
Safe & Drug Free Schools 042860 0405	84.186	-	302	-	-	-	-
Safe & Drug Free Schools 062860 0506	84.186	4,156	4,156	-	-	-	-
Safe & Drug Free Schools 072860 0607	84.186	3,219	-	-	3,219	3,219	-
Safe & Drug Free Schools 052860 0405	84.186	-	45	-	-	-	-
TOTAL		7,375	4,503	-	3,219	3,219	-
Title II-D Ed Tech #074240/2-1	84.318	810	-	-	74	74	-
LEA Medicaid FFS-Transportation	93.778	574	527	-	574	574	-
TOTAL		574	527	-	574	574	-
TOTAL PASSED THROUGH MARESA		147,266	72,751	56,099	73,531	100,274	29,356
TOTAL U.S. DEPARTMENT OF EDUCATION		1,890,102	567,376	57,759	573,863	457,090	174,532
Passed through Michigan State Police:							
Homeland Security Grant Program Part II-School Initiative	97.004	-	3,979	-	-	-	-
TOTAL		-	3,979	-	-	-	-
TOTAL PASSED THROUGH MICHIGAN STATE POLICE		-	3,979	-	-	-	-
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 2,227,350	$ 951,539	$ 62,159	$ 911,111	$ 794,652	$ 178,618

GWINN AREA COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2007 and are not included on the Schedule of Expenditures of Federal Awards.

Description	Project Number	Amount Reported
School Breakfast	066320 M-24	$4,835

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF FEDERAL AWARDS:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120		$675,673
Add payments not on R7120:		
Food distribution commodities	$23,541	
Passed through MARESA	73,531	
Less – Deferred revenue at beginning of year – MDE	(1,660)	
Add – Deferred revenue at end of year – MDE	145,176	
Less – School Breakfast Program	(4,835)	
Correction of Summer Food Program deferred revenue	(314)	
Rounding	(1)	235,438
TOTAL FEDERAL AWARDS EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS		$911,111

NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:	
Total Federal Revenue Sources reported in the financial statements	$911,113
Reconciling Items:	
Other minor differences in program revenues	(2)
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	$911,111

GWINN AREA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Gwinn Area Community Schools.

2. There were no reportable conditions disclosed during the audit of the financial statements.

3. There were no instances of noncompliance material to the financial statements of Gwinn Area Community Schools disclosed during the audit.

4. No reportable conditions relating to the audit of the major federal award programs is reported in this schedule.

5. The auditors' report on compliance for the major federal award programs for Gwinn Area Community Schools expresses an unqualified opinion.

6. No audit findings relative to the major federal award program for Gwinn Area Community Schools were disclosed during the audit.

7. The programs tested as major programs were:

ECIA Title I	84.010

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Gwinn Area Community Schools was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

GWINN AREA COMMUNITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year June 30, 2006

There were no findings and questioned costs
for major federal awards in the prior year.

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA
ROBERT J. DOWNS, CPA, CVA
DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

Gwinn Area Community Schools
Report to Management Letter
For the Year Ended June 30, 2007

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

In planning and performing our audit of the financial statements of the Gwinn Area Community Schools for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Gwinn Area Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements 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 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 by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted certain other comments under standards established by the American Institute of Certified Public Accountants.

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Board of Education
Gwinn Area Community Schools
Gwinn, MI 49841

Other Comments and Recommendations

Board Approval of Significant Financial Transactions

The minutes of the Board of Directors should indicate Board approval of all significant actions. The disposal of machinery and equipment with the net book value of approximately $26,000 was not mentioned in the board minutes. We recommend the Board approve all financial transactions in the minutes to document this internal control procedure.

* * * * * * * * * *

This report is intended solely for the information and use of the Gwinn Area Community Schools' board, management, and other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Gwinn Area Community Schools' staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2007

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
JOHN W. BLEMBERG, CPA ROBERT J. DOWNS, CPA, CVA DANIEL E. BIANCHI, CPA

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September 10, 2007

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

We have audited the financial statements of the Gwinn Area Community Schools for the year ended June 30, 2007, and have issued our report thereon dated September 10, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards

As stated in our engagement letter dated April 25, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Gwinn Area Community Schools' financial statements are free of material misstatement, we performed test 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 Gwinn Area 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 Gwinn Area Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Gwinn Area Community Schools' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Gwinn Area Community Schools are described in Footnote A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2007. We noted no transactions entered into by the Gwinn Area Community Schools during the year that were both significant and unusual, and of which,

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under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Audit Adjustments

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

Disagreements with Management

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

Consultation with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Gwinn Area Community Schools Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants