



WEINLANDER FITZHUGH

GLADWIN COMMUNITY SCHOOLS
GLADWIN, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2013

TABLE OF
CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 12
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	15
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balance	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	18
Fiduciary Funds:	
Statement of Fiduciary Net Position	19
Notes to Financial Statements	20 - 41
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	42
Other Supplemental Information	
Combining Balance Sheet - Nonmajor Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	44
Schedules of Bonded Indebtedness	45 - 48
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	49 - 50

TABLE OF
CONTENTS

	<u>Page</u>
Report on Compliance For Each Major Program and on Internal Control Over Compliance Required By OMB Circular A-133	51 - 52
Schedule of Findings and Questioned Costs	53 - 54
Schedule of Expenditures of Federal Awards	55 - 57
Notes to the Schedule of Expenditures of Federal Awards	58



WEINLANDER FITZHUGH

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Independent Auditor's Report

October 17, 2013

Board of Education
Gladwin Community Schools
Gladwin, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools (School District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
October 17, 2013

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 School District as of June 30, 2013 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the School District has implemented Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
October 17, 2013

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements and schedules of bonded indebtedness are presented for purpose of additional analysis and are not a required part of the basic financial statements. The 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.

The combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Our discussion and analysis of Gladwin Community Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2013.

Financial Highlights

The School District's net position increased by \$195,520 or 2%. Program revenues were \$3,559,859 or 20% of total revenues and general revenues were \$14,287,020 or 80%.

The General Fund reported a positive fund balance of \$2,393,117.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Debt Service Fund (2004 Issue) with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

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

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Fiduciary Funds

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

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

District-wide Financial Analysis

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2013 and 2012:

Exhibit A	<u>Governmental Activities</u>	
	<u>2013</u>	<u>Restated 2012</u>
Assets		
Current and other assets	\$ 11,067,656	\$ 3,471,071
Capital assets - net of accumulated depreciation	<u>16,223,093</u>	<u>16,888,962</u>
Total assets	<u>27,290,749</u>	<u>20,360,033</u>
Liabilities		
Current liabilities	9,007,556	1,618,144
Long-term liabilities	<u>9,579,156</u>	<u>10,233,372</u>
Total liabilities	<u>18,586,712</u>	<u>11,851,516</u>
Net Position		
Net investment in capital assets	6,828,093	6,819,651
Restricted	346,983	104,605
Unrestricted	<u>1,528,961</u>	<u>1,584,261</u>
Total net position	<u>\$ 8,704,037</u>	<u>\$ 8,508,517</u>

The table above focuses on net position (see Exhibit A). The School District's net position was \$8,704,037 at June 30, 2013. Capital assets, net of related debt totaling \$6,828,093, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due.

The \$1,528,961 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2013 and 2012.

Exhibit B	<u>Governmental Activities</u>	
	<u>2013</u>	<u>Restated 2012</u>
Revenues		
Program revenue:		
Charges for services	\$ 415,375	\$ 516,901
Grants and categoricals	3,144,484	2,863,036
Capital contributions	0	12,430
General revenue:		
Property taxes	5,356,541	5,190,484
State foundation allowance	8,307,425	8,741,429
Other	623,054	160,038
	<u>17,846,879</u>	<u>17,484,318</u>
Function/Program Expenses		
Instruction	9,682,931	9,699,543
Support services	5,460,441	5,611,445
Community services	16,650	7,419
Food services	790,140	778,198
Athletics	306,716	285,395
Adjustments to prior period revenue accounts	3,907	162,591
Facilities, acquisition, construction and equipment	1,450	0
Bond issuance costs	107,438	0
Interest on long term debt	615,817	458,770
Depreciation (unallocated)	665,869	664,576
	<u>17,651,359</u>	<u>17,667,937</u>
Change in Net Position	<u>\$ 195,520</u>	<u>\$ (183,619)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$17,651,359. Certain activities were partially funded from those who benefited from the programs, \$415,375 or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$3,144,484. We paid for the remaining "public benefit" portion of our governmental activities with \$5,356,541 in taxes, \$8,307,425 in state foundation allowance and with our other revenues, such as interest and entitlements.

The School District had an increase in net position of \$195,520 due to a combination of increased revenue and decreased expenses. There was a state aid adjustment from the prior year that helped increase the net position. A slight decrease in overall expenses also helped contribute to the positive change in net position. The decrease in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

The School District's Funds

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

The School District's governmental funds reported a combined fund balance of \$10,226,356, which is below last year's total of \$2,598,127. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2013 and 2012.

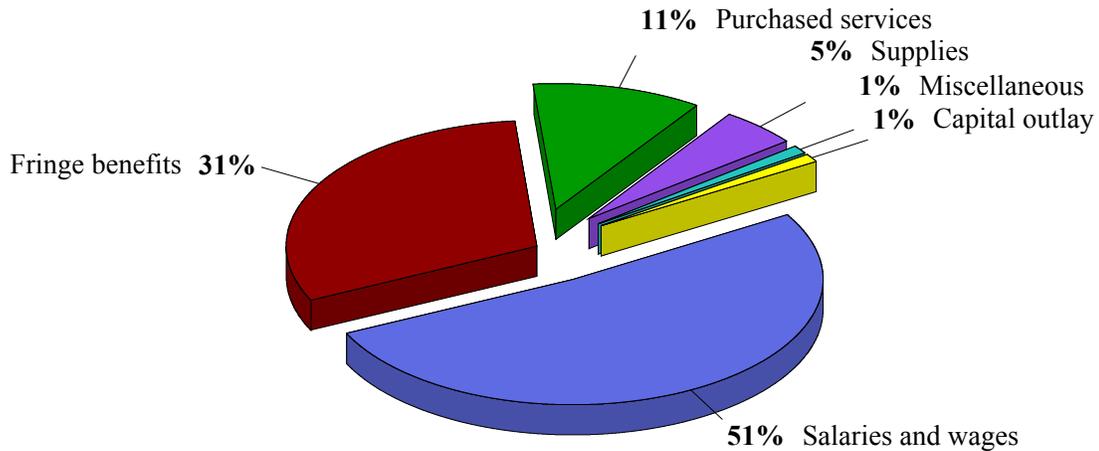
	<u>Fund Balance</u> <u>6/30/2013</u>	<u>Fund Balance</u> <u>6/30/2012</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,393,117	\$ 2,413,233	\$ (20,116)
Special Revenue	86,267	85,236	1,031
Debt Service	<u>7,746,972</u>	<u>99,658</u>	<u>7,647,314</u>
	<u>\$ 10,226,356</u>	<u>\$ 2,598,127</u>	<u>\$ 7,628,229</u>

- Our General Fund had a decrease in fund balance of \$20,116 due to an increase in the State of Michigan retirement rate.
- Our Special Revenue Fund had an increase in fund balance of \$1,031 due to a slight decrease in expenditures. However, this fiscal year there was a higher rate of uncollectible revenue than in previous years, which contributes to the lower addition to fund balance.
- Our Debt Service Funds are funded by local millage (tax collections). The increase of \$7,647,314 was due to the 2012 Bond Refunding. These funds are being held in anticipation of a May 2014 bond payment.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

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

Expenditures



Expenditures by Object	2013	2012
Salaries and wages	\$ 7,976,172	\$ 8,272,015
Fringe benefits	4,819,101	4,829,974
Purchased services	1,697,166	1,360,601
Supplies	700,861	930,969
Capital outlay	88,737	85,782
Miscellaneous	160,367	203,390
Total	\$ 15,442,404	\$ 15,682,731

Expenditures have decreased by \$240,327 from the prior year primarily due to a reduction in salaries and miscellaneous.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

General Fund Budgetary Highlights

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

- Budgeted revenues increased from the original budget by \$974,848. The increase was due restoring our adult education program and receiving unanticipated revenue for that program. Also the district had a large amount of carryover funds from federal programs that were not budgeted in the original budget. Additional IDEA funds were also forwarded to the school district from Clare-Gladwin RESD
- Budgeted expenditures increased from the original budget by \$793,624. This was due to the general changes in the everyday activity of the School District. As revenue increased additional expenditures were planned.
- Actual revenues were under the final budgeted revenue by \$194,399 due to federal grant revenue being budgeted but not spent and requested from the grant source.
- Actual expenditures were under the final budgeted expenditures by \$181,781 due to several large purchase orders not being filled by June 30. Supplies were ordered by did not arrive by the end of the fiscal year.

Capital Assets

At June 30, 2013, the School District had \$16,223,093 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 4% from last year.

	<u>2013</u>	<u>2012</u>
Land	\$ 156,307	\$ 156,307
Buildings and improvements	26,565,278	26,565,278
Buses and other vehicles	1,715,376	2,160,073
Furniture and equipment	<u>583,912</u>	<u>583,912</u>
Total capital assets	29,020,873	29,465,570
Less accumulated depreciation	<u>12,797,780</u>	<u>12,576,608</u>
Net capital assets	<u>\$ 16,223,093</u>	<u>\$ 16,888,962</u>

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

There were no capital additions during the current year.

We anticipate a bond proposal for the purchase of buses for the 2014-2015 school year. If the bond proposal passes a purchase of eight (8) new buses is anticipated. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$16,775,000 in bonds outstanding versus \$10,069,311 in the previous year - an increase of 67%.

	<u>2013</u>	<u>2012</u>
2004 general obligation bonds	\$ 7,925,000	\$ 8,500,000
2007 general obligation bonds	1,470,000	1,555,000
Durant bonds	0	14,311
2012 general obligation bonds	<u>7,380,000</u>	<u>0</u>
	<u>\$ 16,775,000</u>	<u>\$ 10,069,311</u>

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

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2014 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2014 fiscal year budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013 and February 2014. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2013-2014 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2014 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2013-2014.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Requests for Information

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

Office of the Superintendent
Gladwin Community School District
401 N. Bowery Avenue, 2nd Floor
Gladwin, MI 48624

GLADWIN COMMUNITY SCHOOLS
Statement of Net Position
June 30, 2013

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 8,449,435
Receivables:	
Accounts receivable	22,366
Due from other governmental units	2,584,804
Inventories	4,231
Prepaid expenses	6,420
Internal balance	400
Capital assets less accumulated depreciation \$12,797,780	16,223,093
Total assets	27,290,749
<u>Liabilities</u>	
Accounts payable	248,412
Accrued payroll and other liabilities	563,401
Unearned revenue	29,487
Accrued interest payable	106,256
Long-term liabilities:	
Due within one year	8,060,000
Due in more than one year	9,579,156
Total liabilities	18,586,712
<u>Net Position</u>	
Net investment in capital assets	6,828,093
Restricted for debt service	260,716
Restricted for food service	86,267
Unrestricted	1,528,961
Total net position	\$ 8,704,037

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Statement of Activities
For the Year Ended June 30, 2013

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 9,682,931	\$ 49,920	\$ 2,315,539	\$ (7,317,472)
Support services	5,460,441	66,410	197,274	(5,196,757)
Community services	16,650	0	0	(16,650)
Food services	790,140	194,113	610,479	14,452
Athletics	306,716	104,932	6,200	(195,584)
Adjustments to prior period revenue accounts	3,907	0	0	(3,907)
Facilities, acquisition, construction and equipment	1,450	0	0	(1,450)
Bond issuance costs	107,438	0	0	(107,438)
Interest on long term debt	615,817	0	14,992	(600,825)
Depreciation (unallocated)	665,869	0	0	(665,869)
Total governmental activities	\$ 17,651,359	\$ 415,375	\$ 3,144,484	(14,091,500)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				4,250,744
Property taxes, levied for debt services				1,105,797
State aid				8,307,425
Interest and investment earnings				13,339
Other				110,922
Premium on bond refunding				498,793
				14,287,020
				195,520
				8,670,729
				(162,212)
				8,508,517
				\$ 8,704,037

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
 Governmental Funds
 Balance Sheet
June 30, 2013

	General	2004 Issue	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and investments	\$ 630,362	\$ 7,737,377	\$ 81,696	\$ 8,449,435
Receivables:				
Accounts receivable	22,366	0	0	22,366
Due from other funds	1,771	0	1,232	3,003
Due from other governmental units	2,570,572	0	14,232	2,584,804
Inventories	0	0	4,231	4,231
Prepaid expenditures	6,420	0	0	6,420
Total assets	\$ 3,231,491	\$ 7,737,377	\$ 101,391	\$ 11,070,259
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 243,965	\$ 0	\$ 4,447	\$ 248,412
Due to other funds	1,521	0	1,082	2,603
Accrued payroll and other liabilities	563,401	0	0	563,401
Unearned revenue	29,487	0	0	29,487
Total liabilities	838,374	0	5,529	843,903
<u>Fund Balance</u>				
Nonspendable - inventory	0	0	4,231	4,231
Nonspendable - prepaid	6,420	0	0	6,420
Restricted for debt service	0	7,737,377	9,595	7,746,972
Restricted for food service	0	0	82,036	82,036
Unassigned	2,386,697	0	0	2,386,697
Total fund balance	2,393,117	7,737,377	95,862	10,226,356
Total liabilities and fund balance	\$ 3,231,491	\$ 7,737,377	\$ 101,391	\$ 11,070,259

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
June 30, 2013

Total fund balance - governmental funds	\$ 10,226,356
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	29,020,873
Accumulated depreciation	(12,797,780)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(16,775,000)
Compensated absences	(864,156)
Accrued interest payable is included as a liability in governmental activities	<u>(106,256)</u>
Total net position - governmental activities	<u><u>\$ 8,704,037</u></u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2013

	General	2004 Issue	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Local sources:				
Property taxes	\$ 4,250,744	\$ 958,272	\$ 147,525	\$ 5,356,541
Other	315,078	9,932	194,113	519,123
State	9,488,412	0	41,357	9,529,769
Federal	1,330,832	0	584,114	1,914,946
Interdistrict and other sources	27,708	0	0	27,708
Total revenues	<u>15,412,774</u>	<u>968,204</u>	<u>967,109</u>	<u>17,348,087</u>
<u>Expenditures</u>				
Current:				
Instruction	9,678,142	0	0	9,678,142
Support services	5,439,446	0	0	5,439,446
Athletics	306,716	0	0	306,716
Community services	16,650	0	0	16,650
Facilities, acquisition, construction and equipment	1,450	0	0	1,450
Food services	0	0	790,140	790,140
Debt service:				
Principal	0	575,000	99,311	674,311
Interest and other	0	517,235	63,206	580,441
Total expenditures	<u>15,442,404</u>	<u>1,092,235</u>	<u>952,657</u>	<u>17,487,296</u>
Excess (deficiency) of revenues over expenditures	<u>(29,630)</u>	<u>(124,031)</u>	<u>14,452</u>	<u>(139,209)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in from other funds	13,421	0	0	13,421
Operating transfers out to other funds	0	0	(13,421)	(13,421)
Adjustments to prior period revenue accounts	(3,907)	0	0	(3,907)
Refunding bonds issued	0	7,878,783	0	7,878,783
Bond issuance costs	0	(107,438)	0	(107,438)
Total other financing sources (uses)	<u>9,514</u>	<u>7,771,345</u>	<u>(13,421)</u>	<u>7,767,438</u>
Net change in fund balance	(20,116)	7,647,314	1,031	7,628,229
Fund balance - beginning of year	<u>2,413,233</u>	<u>90,063</u>	<u>94,831</u>	<u>2,598,127</u>
Fund balance - end of year	<u>\$ 2,393,117</u>	<u>\$ 7,737,377</u>	<u>\$ 95,862</u>	<u>\$ 10,226,356</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balance - total governmental funds	\$ 7,628,229
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(665,869)
<p>Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)</p>	
	674,311
<p>Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from bonds issued</p>	
	(7,380,000)
<p>Increases in compensated absences are reported as an increase in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	(25,784)
<p>Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid</p>	
	<u>(35,367)</u>
Change in net position of governmental activities	<u><u>\$ 195,520</u></u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ 191,360
Due from other funds	288
	<u>191,648</u>
<u>Liabilities</u>	
Due to student groups	\$ 190,960
Due to other funds	688
Total liabilities	<u>\$ 191,648</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

District-wide and Fund Financial Statements

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

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental funds:

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

Debt Service Fund (2004 Issue) - The Debt Service Fund for the 2004 issue was used to record and keep separate activities related to this debt issue.

Assets, Liabilities, and Net Position or Equity

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

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

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

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 asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

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

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Equity - The fund balance classifications are reported primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deferred Outflows and Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has no items that qualify for reporting in the category.

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Aid - For the fiscal year ended June 30, 2013, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2013, the foundation allowance was based on the average pupil membership counts taken in February and September of 2012.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2012 - August 2013. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2013 (included in due/from other governmental units) relating to state aid is \$1,874,427.

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

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

NOTE 2 - BUDGETS

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 2 - BUDGETS (CONTINUED)

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

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

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

During the year ended June 30, 2013, the School District recorded revenues and expenditures in certain budgetary funds which were unfavorable variances in amounts estimated as follows:

<u>Fund/Function</u>	<u>Total</u> <u>Appropriations</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
General Fund:			
Property taxes	\$ 4,255,486	\$ 4,250,744	\$ (4,742)
State sources	9,531,356	9,488,412	(42,944)
Federal sources	1,503,507	1,330,832	(172,675)
Expenditures:			
General Fund:			
General administrative	255,596	259,493	(3,897)
Business services	338,318	338,516	(198)
Transportation	928,875	972,282	(43,407)
Other central support services	285,681	286,348	(667)
Athletics	303,581	306,716	(3,135)
Other financing uses:			
Adjustments for prior period revenue accounts	0	3,907	(3,907)

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 8,449,435	\$ 191,360	\$ 8,640,795

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 8,572,178
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity not to exceed 60 days	68,418
Petty cash and cash on hand	199
Total	\$ 8,640,795

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2013, \$8,169,909 of the School District's bank balance of \$8,984,537 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2012	Additions	Disposals and Adjustments	Balance June 30, 2013
Assets not being depreciated:				
Land	\$ 156,307	\$ 0	\$ 0	\$ 156,307
Capital assets being depreciated:				
Buildings and improvements	26,565,278	0	0	26,565,278
Buses and other vehicles	2,160,073	0	(444,697)	1,715,376
Furniture and equipment	583,912	0	0	583,912
Subtotal	<u>29,309,263</u>	<u>0</u>	<u>(444,697)</u>	<u>28,864,566</u>
Accumulated depreciation:				
Buildings and improvements	10,488,710	525,295	0	11,014,005
Buses and other vehicles	1,649,031	115,980	(444,697)	1,320,314
Furniture and equipment	438,867	24,594	0	463,461
Subtotal	<u>12,576,608</u>	<u>665,869</u>	<u>(444,697)</u>	<u>12,797,780</u>
Net capital assets being depreciated	<u>16,732,655</u>	<u>(665,869)</u>	<u>0</u>	<u>16,066,786</u>
Net capital assets	<u>\$ 16,888,962</u>	<u>\$ (665,869)</u>	<u>\$ 0</u>	<u>\$ 16,223,093</u>

Depreciation expense for fiscal year ended June 30, 2013 was \$665,869. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 5 - INTERFUND TRANSFERS AND BALANCES

A summary of inter-fund receivable and payable balances at June 30, 2013 and transfers made during the year ended June 30, 2013 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 1,771	\$ 1,521	\$ 13,421	\$ 0
Special Revenue:				
Food Service	1,232	1,082	0	13,421
Student activity	<u>288</u>	<u>688</u>	<u>0</u>	<u>0</u>
	<u>\$ 3,291</u>	<u>\$ 3,291</u>	<u>\$ 13,421</u>	<u>\$ 13,421</u>

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

Transfers are also used to transfer indirect costs between the General Fund and the Food Service Fund.

NOTE 6 - LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2013:

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Amount Due</u>
	<u>June 30, 2012</u>		<u>and Payments</u>	<u>June 30, 2013</u>	<u>Within One</u>
					<u>Year</u>
Bonds	\$ 10,069,311	\$ 7,380,000	\$ 674,311	\$ 16,775,000	\$ 8,060,000
Retirement stipends and compensated absences	<u>838,372</u>	<u>25,784</u>	<u>0</u>	<u>864,156</u>	<u>0</u>
	<u>\$ 10,907,683</u>	<u>\$ 7,405,784</u>	<u>\$ 674,311</u>	<u>\$ 17,639,156</u>	<u>\$ 8,060,000</u>

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Bonds payable at June 30, 2013 is comprised of the following issues:

\$11,600,000 General Obligation Bonds due in annual installments of \$125,000 to \$825,000 through May 1, 2024; interest at 3.00% to 4.5%. In connection with advanced refunding, \$7,925,000 will be due on May 1, 2014. \$600,000 will be funded with debt service funds. The balance of \$7,325,000 will be fully defeased with advanced refund proceeds currently held in escrow.	\$ 7,925,000
\$2,400,000 School Building and Site Bonds due in annual installments of \$25,000 to \$685,000 through May 1, 2024; interest at 4.0%	1,470,000
\$7,380,000 Refunding of the 2004 general obligation bonds issued due in annual installments of \$50,000 to \$805,000 through May 1, 2024, interest at 2.00% to 3.00%	<u>7,380,000</u>
Total Bonded Debt	<u><u>\$ 16,775,000</u></u>

Under the terms of the present contracts between the Board of Education of Gladwin Community Schools and the various employee groups, including teachers, administration, custodians, bus drivers and extra support personnel, the School District is contingently liable for compensated absences (sick pay) and retirement stipends pay. The amount of compensated absences and retirement stipends, calculated based on number of years of service, amounted to \$362,335 and \$501,821 respectively at June 30, 2013.

The annual requirements to amortize bonds outstanding as of June 30, 2013 including interest payments are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 8,060,000	\$ 630,200	\$ 8,690,200
2015	755,000	275,300	1,030,300
2016	780,000	251,750	1,031,750
2017	805,000	227,400	1,032,400
2018	830,000	202,200	1,032,200
2019 - 2023	4,555,000	1,119,600	5,674,600
2024	990,000	31,550	1,021,550
	<u>\$ 16,775,000</u>	<u>\$ 2,738,000</u>	<u>\$ 19,513,000</u>

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 7 - RISK MANAGEMENT

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

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

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description - The School District participates in the statewide Michigan Public School Employees' Retirement System (System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefit Provisions - Pension

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB member or Pension Plus hybrid plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 - members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members: 4% contribution
- MIP-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Option 2 - members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MDP-Fixed, up to 4.3% for MEP-Graded, or up to 6.4% for MEP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect to opt out of the Pension Plus hybrid plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect to opt out of the Pension Plus hybrid plan, their participation in the DC plan will be retroactive to their date of hire.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Funding Policy

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan Member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily choose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the School District is required to match 50% up to 1% of the employees contribution in the Pension Plus plan. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS were equal to the required contribution for those years.

The School District's contributions to MPSERS are as follows:

Fiscal Year Ending June 30,	Contributions to MPSERS
2013	\$ 1,771,623
2012	\$ 1,832,769
2011	\$ 1,644,854

Included in the amounts paid above, the School District received \$160,173 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The School District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

PA 464 Retirees Returning to Work, effective December 27, 2012 also requires applicable employer contributions to the defined benefit and defined contribution plans. These amounts if any are included in the amounts paid above.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

Public School Employee Pension Rates (FYE Sept. 30th)	Fiscal Year 2013						
	Effective February 1, 2013						
	Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/12	Pension Plus to FC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MP DB to DC with PHF	Basic MIP with PHF
	DB Contributions						
Pension Normal Costs	2.43 %	2.24 %	2.24 %	0.00 %	0.00 %	0.00 %	2.43 %
Pension UAL	11.42 %	11.42 %	11.42 %	11.42 %	11.42 %	11.42 %	11.42 %
Pension Early Retirement Incentive	1.36 %	1.36 %	1.36 %	1.36 %	1.36 %	1.36 %	1.36 %
Pension Contributions - Total Rate	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health Normal Cost	0.93 %	0.93 %	0.00 %	0.00 %	0.93 %	0.00 %	0.00 %
Health UAL	8.18 %	8.18 %	8.18 %	8.18 %	8.18 %	8.18 %	8.18 %
Health Contributions - Total Rate	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Total	24.32 %	24.13 %	23.20 %	20.96 %	21.89 %	20.96 %	23.39 %
	DC Contributions						
DC Employer Contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %
Total	0.00 %	1.00 %	3.00 %	5.00 %	4.00 %	6.00 %	2.00 %

Public School Employee Pension Rates (FYE Sept. 30th)	Fiscal Year 2013				Fiscal Years 2012 and 2011					
	4 months ended 1/31/2013				FY 2011 - 2012		Eleven months ended 9/30/11		One month ended 10/31/2010	
	First worked before 7/1/10	First worked between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Pension Normal Cost (Prefunded)	3.47 %	2.24 %	2.24 %	0.00 %	3.47 %	2.24 %	3.74 %	2.24 %	3.74 %	2.24 %
Pension Unfunded Accrued Liability	11.42 %	11.42 %	11.42 %	11.42 %	12.49 %	12.49 %	8.42 %	8.42 %	8.42 %	8.42 %
Early Retirement Incentive Program	1.36 %	1.36 %	1.36 %	1.36 %	0.00 %	0.00 %	N/A	N/A	N/A	N/A
Pension Total Rate	16.25 %	15.02 %	15.02 %	12.78 %	15.96 %	14.73 %	12.16 %	10.66 %	12.16 %	10.66 %
Retiree Health Care Contribution (Cash basis)	0.93 %	0.93 %	0.00 %	0.00 %	5.50 %	5.50 %	5.50 %	5.50 %	7.25 %	7.25 %
Surcharge due to Injunction	8.18 %	8.18 %	8.18 %	8.18 %	3.00 %	3.00 %	3.00 %	3.00 %	N/A	N/A
Health Total Rate	9.11 %	9.11 %	8.18 %	8.18 %	8.50 %	8.50 %	8.50 %	8.50 %	7.25 %	7.25 %
Total	25.36 %	24.13 %	23.20 %	20.96 %	24.46 %	23.23 %	20.66 %	19.16 %	19.41 %	17.91 %

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefit Provisions - Other Postemployment

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare. Deferred or nonvested members on September 3, 2012 who are rehired on or after September 4, 2012, will contribute 3% contribution to retiree healthcare and will retain the subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they chose.

Those who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the health care funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet eligibility requirements may request a refund of their contributions. Similarly, if a retiree dies before the total value of the insurance subsidy paid equals the total value of the contributions the member made, and there are no eligible dependents, the beneficiary may request a refund of unused funds. Refunds of member contributions to the healthcare funding account are issued as a supplemental benefit paid out over a 60 month period.

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.
2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

Under Public Act 300 of 2012, the state no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a PHF participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a PHF participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility ends (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

Other Information

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

NOTE 9 - GRANTS

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 10 - ECONOMIC DEPENDENCY

The School District received approximately 62% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

NOTE 11 - OPERATING LEASE

The organization leases multiple copy machines under operating leases expiring during the year ending June 30, 2016. Minimum future rental payments are \$30,748, \$28,648 and \$4,775 for the years ending June 30, 2014, 2015 and 2016, respectively. Rent expense for the copier lease was \$31,168 for the year ending June 30, 2013.

NOTE 12 - RELATED PARTY TRANSACTION

The School District purchased electrical service from a business owned by family members of a member of the Board of Education in the amount of \$16,131 for the year ended June 30, 2013.

NOTE 13 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2013 the School District implemented the following new pronouncements:

GASB Statements 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.

Summary:

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 13 - NEW ACCOUNTING STANDARDS (CONTINUED)

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The restatement of the beginning of the year net position follows:

	Governmental activities
Net position as previously stated, July 1, 2012	\$ <u>8,670,729</u>
Bond issuance costs	(264,407)
Accumulated amortization	<u>102,195</u>
	<u>(162,212)</u>
Net position as restated, July 1, 2012	\$ <u><u>8,508,517</u></u>

NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, was issued by the GASB in June 2012 and will be effective for the School District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 15 - ADVANCED REFUNDING

On September 6, 2012, the School District advanced refunded a \$7,380,000 general obligation bond issue. The School District issued \$7,380,000 of general obligation refunding bonds and issued a check in the amount of \$187,000 from the 2004 debt retirement fund to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments for the refunded debt. As a result, the refunded bonds will be considered to be defeased and the liability will be removed from the district-wide financial statements upon final payment on May 1, 2014, as required. This advanced refunding was undertaken to reduce total debt service payments over the next 11 years by \$881,526 and to obtain economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$803,272.

GLADWIN COMMUNITY SCHOOLS
 Required Supplemental Information
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2013

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources:				
Property taxes	\$ 3,914,079	\$ 4,255,486	\$ 4,250,744	\$ (4,742)
Other local sources	255,904	289,582	315,078	25,496
State	9,483,675	9,531,356	9,488,412	(42,944)
Federal	765,254	1,503,507	1,330,832	(172,675)
Interdistrict and other sources	213,413	27,242	27,708	466
Total revenues	<u>14,632,325</u>	<u>15,607,173</u>	<u>15,412,774</u>	<u>(194,399)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	7,240,335	7,387,726	7,347,697	40,029
Added needs	2,226,528	2,265,844	2,235,065	30,779
Adult/Continuing Ed	83,000	168,957	95,380	73,577
Support services:				
Pupil	717,822	1,073,874	1,061,079	12,795
Instructional staff	417,152	522,018	488,373	33,645
General administrative	236,284	255,596	259,493	(3,897)
School administrative	1,068,780	1,031,572	1,022,877	8,695
Business services	371,765	338,318	338,516	(198)
Operations and maintenance	874,660	1,030,825	1,010,478	20,347
Transportation	1,046,255	928,875	972,282	(43,407)
Other central support services	261,132	285,681	286,348	(667)
Athletics	275,249	303,581	306,716	(3,135)
Community services	11,599	28,118	16,650	11,468
Facilities, acquisition, construction and equipment	0	3,200	1,450	1,750
Total expenditures	<u>14,830,561</u>	<u>15,624,185</u>	<u>15,442,404</u>	<u>181,781</u>
Excess (deficiency) of revenues over expenditures	<u>(198,236)</u>	<u>(17,012)</u>	<u>(29,630)</u>	<u>(12,618)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in from other funds	0	13,200	13,421	221
Adjustments to prior period revenue accounts	0	0	(3,907)	(3,907)
Total other financing sources (uses)	<u>0</u>	<u>13,200</u>	<u>9,514</u>	<u>(3,686)</u>
Net change in fund balance	(198,236)	(3,812)	(20,116)	(16,304)
Fund balance - beginning of year	<u>2,413,233</u>	<u>2,413,233</u>	<u>2,413,233</u>	<u>0</u>
Fund balance - end of year	<u>\$ 2,214,997</u>	<u>\$ 2,409,421</u>	<u>\$ 2,393,117</u>	<u>\$ (16,304)</u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Combining Balance Sheet
 Nonmajor Governmental Funds
June 30, 2013

	<u>Special</u>	<u>Debt Service Funds</u>		<u>Total</u>
	<u>Revenue Fund</u>	<u>2007 Issue</u>	<u>Durant Issue</u>	
	<u>Food Services</u>			
<u>Assets</u>				
Cash and investments	\$ 72,101	\$ 9,595	\$ 0	\$ 81,696
Receivables:				
Due from other funds	1,232	0	0	1,232
Due from other governmental units	14,232	0	0	14,232
Inventories	4,231	0	0	4,231
Total assets	<u>\$ 91,796</u>	<u>\$ 9,595</u>	<u>\$ 0</u>	<u>\$ 101,391</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 4,447	\$ 0	\$ 0	\$ 4,447
Due to other funds	1,082	0	0	1,082
Total liabilities	<u>5,529</u>	<u>0</u>	<u>0</u>	<u>5,529</u>
<u>Fund Balance</u>				
Non-spendable - inventory	4,231	0	0	4,231
Restricted for debt service	0	9,595	0	9,595
Restricted for food service	82,036	0	0	82,036
Total liabilities and fund balance	<u>86,267</u>	<u>9,595</u>	<u>0</u>	<u>95,862</u>
Total liabilities and fund balance	<u>\$ 91,796</u>	<u>\$ 9,595</u>	<u>\$ 0</u>	<u>\$ 101,391</u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Special Revenue Fund	Debt Service Funds		
	Food Services	2007 Issue	Durant Issue	Total
<u>Revenues</u>				
Local sources:				
Property taxes	\$ 0	\$ 147,525	\$ 0	\$ 147,525
Other	194,113	0	0	194,113
State	26,365	0	14,992	41,357
Federal	584,114	0	0	584,114
Total revenues	<u>804,592</u>	<u>147,525</u>	<u>14,992</u>	<u>967,109</u>
<u>Expenditures</u>				
Current:				
Food services	790,140	0	0	790,140
Debt service:				
Principal	0	85,000	14,311	99,311
Interest and other	0	62,525	681	63,206
Total expenditures	<u>790,140</u>	<u>147,525</u>	<u>14,992</u>	<u>952,657</u>
Excess (deficiency) of revenues over expenditures	14,452	0	0	14,452
<u>Other Financing Sources (Uses)</u>				
Operating transfers out to other funds	(13,421)	0	0	(13,421)
Net change in fund balance	1,031	0	0	1,031
Fund balance - beginning of year	85,236	9,595	0	94,831
Fund balance - end of year	<u>\$ 86,267</u>	<u>\$ 9,595</u>	<u>\$ 0</u>	<u>\$ 95,862</u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness
 For the Year Ended June 30, 2013

<u>PURPOSE</u>	The 2004 general obligation bonds issued, which the District will use to construct an addition to the elementary school, do minor repair/remodeling in the intermediate school and major renovating of the junior high school.		
<u>DATE OF ISSUE</u>	November 8, 2004		
<u>AMOUNT OF ISSUE</u>			\$ 11,600,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$ 3,100,000	
	During current year	<u>575,000</u>	<u>3,675,000</u>
<u>BALANCE OUTSTANDING - June 30, 2013</u>			<u>\$ 7,925,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	3.50%	<u>\$ 7,925,000</u>	<u>\$ 350,500</u>	<u>\$ 8,275,500</u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness
 For the Year Ended June 30, 2013

PURPOSE

The 2007 general obligation bonds issued, which the District will use to remodel the high school, including roof replacements and cafeteria improvements; acquiring and installing lockers; acquiring school buses and developing and improving sites.

DATE OF ISSUE

October 1, 2007

AMOUNT OF ISSUE

\$ 2,400,000

AMOUNT OF REDEEMED

During prior years	\$ 845,000	
During current year	<u>85,000</u>	<u>930,000</u>

BALANCE OUTSTANDING - June 30, 2013

\$ 1,470,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	4.00%	\$ 85,000	\$ 58,800	\$ 143,800
2015	4.00%	90,000	55,400	145,400
2016	4.00%	95,000	51,800	146,800
2017	4.00%	105,000	48,000	153,000
2018	4.00%	115,000	43,800	158,800
2019	4.00%	130,000	39,200	169,200
2020	4.00%	145,000	34,000	179,000
2021	4.00%	160,000	28,200	188,200
2022	4.00%	175,000	21,800	196,800
2023	4.00%	185,000	14,800	199,800
2024	4.00%	<u>185,000</u>	<u>7,400</u>	<u>192,400</u>
		<u>\$ 1,470,000</u>	<u>\$ 403,200</u>	<u>\$ 1,873,200</u>

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness
For the Year Ended June 30, 2013

<u>PURPOSE</u>	Remodeling school buildings and improving sites.	
<u>DATE OF ISSUE</u>	November 24, 1998	
<u>AMOUNT OF ISSUE</u>		\$ 213,501
<u>AMOUNT OF REDEEMED</u>		
	During prior years	\$ 199,190
	During current year	14,311
		<u>213,501</u>
<u>BALANCE OUTSTANDING - June 30, 2013</u>		<u><u>\$ 0</u></u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness
 For the Year Ended June 30, 2013

PURPOSE

The 2012 general fund obligation bonds were issued, which the District will use to refunding of the 2004 general obligation bonds issued, which the District will use to construct an addition to the elementary school, do minor repair/remodeling in the intermediate school and major renovating of the junior high school.

DATE OF ISSUE

September 6, 2012

AMOUNT OF ISSUE

\$ 7,380,000

AMOUNT OF REDEEMED

During prior years	\$	0	
During current years		0	0

BALANCE OUTSTANDING - June 30, 2013

\$ 7,380,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	2.00%	\$ 50,000	\$ 220,900	\$ 270,900
2015	3.00%	665,000	219,900	884,900
2016	3.00%	685,000	199,950	884,950
2017	3.00%	700,000	179,400	879,400
2018	3.00%	715,000	158,400	873,400
2019	3.00%	725,000	136,950	861,950
2020	3.00%	740,000	633,600	1,373,600
2021	3.00%	750,000	93,000	843,000
2022	3.00%	765,000	70,500	835,500
2023	3.00%	780,000	47,550	827,550
2024	3.00%	805,000	24,150	829,150
		<u>\$ 7,380,000</u>	<u>\$ 1,984,300</u>	<u>\$ 9,364,300</u>



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

Independent Auditor's Report

October 17, 2013

Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools (School District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Gladwin Community Schools' basic financial statements and have issued our report thereon dated October 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gladwin Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Gladwin Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Gladwin Community Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
October 17, 2013

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies 2013-1.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

October 17, 2013

To the Board of Education
Gladwin Community Schools
Gladwin, Michigan

Report on Compliance for Each Major Federal Program

We have audited Gladwin Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gladwin Community Schools' major federal programs for the year ended June 30, 2013. Gladwin Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Gladwin Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gladwin Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Gladwin Community Schools' compliance.

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Board of Education
Gladwin Community Schools
October 17, 2013

Opinion on Each Major Federal Program

In our opinion, Gladwin Community Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Gladwin Community Schools, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gladwin Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gladwin Community Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
 Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

SECTION 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? YES NO
- Significant deficiency(ies) identified? YES NONE REPORTED

Noncompliance material to financial statements noted? YES NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? YES NO
- Significant deficiency(ies) identified? YES NONE REPORTED

Type of auditor's report issued on compliance of major programs: Unmodified opinion

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367	ECIA Title IIA
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? YES NO

GLADWIN COMMUNITY SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

SECTION II - Financial Statement Findings

2013-1 (Repeat Finding)

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

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

Context

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

Effect

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

Cause

The cause is the result of the complexity of the financial reporting process in accordance with U.S. generally accepted accounting principles and GASB pronouncements.

Recommendation

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

Views of the Responsible Officials and Planned Corrective Action

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

SECTION III - Federal Award Findings and Questioned Costs

There are no matters reported.

GLADWIN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2012	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2013
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education:								
Adult Education - State Administration	84.002A							
Project 111130-111787		\$76,000	\$ 0	\$ 0	\$ (10,992)	\$ (10,992)	\$ 0	\$ 0
Project 111150-114302		25,000	0	0	0	460	460	0
Project 111190-111787		40,271	0	0	(23,722)	(23,722)	0	0
Project 101130-101787		111,000	0	0	(34,967)	(34,967)	0	0
Project 101130-107009		5,000	0	0	(1,868)	(1,868)	0	0
Project 131190-131787		35,000	0	0	0	9,551	19,707	10,156
Project 131130-131787		76,418	0	0	0	16,883	16,883	0
Project 101190-101787		34,000	0	0	(25,923)	(25,923)	0	0
			<u>0</u>	<u>0</u>	<u>(97,472)</u>	<u>(70,578)</u>	<u>37,050</u>	<u>10,156</u>
ECIA Title I Cluster								
ECIA Title I	84.010							
Project 121530-1112		838,389	809,312	301,569	0	309,377	7,808	0
Project 131530-1213		627,664	0	0	0	251,650	580,258	328,608
			<u>809,312</u>	<u>301,569</u>	<u>0</u>	<u>561,027</u>	<u>588,066</u>	<u>328,608</u>
ECIA Title VI, Part B	84.358							
Project 110660-1011		47,979	34,923	12,026	0	12,026	0	0
Project 120660-1112		63,400	0	0	0	35,327	35,327	0
			<u>34,923</u>	<u>12,026</u>	<u>0</u>	<u>47,353</u>	<u>35,327</u>	<u>0</u>
ECIA Title IIA	84.367							
Project 120520-1112		210,214	154,169	75,432	0	75,289	(143)	0
Project 130520-1213		200,790	0	0	0	102,802	197,417	94,615
			<u>154,169</u>	<u>75,432</u>	<u>0</u>	<u>178,091</u>	<u>197,274</u>	<u>94,615</u>
Passed through Clare Gladwin RESD:								
Handicapped Preschool and School Program, IDEA	84.027							
Project 110450-1011		269,857	269,957	134,979	0	134,979	0	0
Project 130450-1213		466,640	0	0	0	268,567	466,640	198,073
			<u>269,957</u>	<u>134,979</u>	<u>0</u>	<u>403,546</u>	<u>466,640</u>	<u>198,073</u>
Education for Homeless Children and Youth.	84.196							
Project 132320-1213		3,370	0	0	0	352	3,370	3,018
Total U.S. Department of Education			<u>1,268,361</u>	<u>524,006</u>	<u>(97,472)</u>	<u>1,119,791</u>	<u>1,327,727</u>	<u>634,470</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

GLADWIN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2012	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2013
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Education:								
Child Nutrition Cluster								
Non-Cash assistance: (Commodities)	10.555							
National School Lunch - Entitlement		\$52,554	\$ 0	\$ 0	\$ 0	\$ 52,554	\$ 52,554	\$ 0
Cash Assistance								
Breakfast	10.553							
Project 121970		108,533	95,852	0	0	12,681	12,681	0
Project 131970		106,085	0	0	0	106,085	106,085	0
			<u>95,852</u>	<u>0</u>	<u>0</u>	<u>118,766</u>	<u>118,766</u>	<u>0</u>
Cash Assistance								
Free and reduced lunches	10.555							
Project 121960		395,525	348,491	0	0	47,034	47,034	0
Project 121980		10,629	10,535	0	0	94	94	0
Project 131960		338,846	0	0	0	338,846	338,846	0
Project 131980		11,829	0	0	0	11,829	11,829	0
			<u>359,026</u>	<u>0</u>	<u>0</u>	<u>397,803</u>	<u>397,803</u>	<u>0</u>
Special Milk	10.556							
Project 121940		569	502	0	0	67	67	0
Project 131940		498	0	0	0	498	498	0
			<u>502</u>	<u>0</u>	<u>0</u>	<u>565</u>	<u>565</u>	<u>0</u>
Summer Food	10.559							
Project 120900		20,991	0	7,915	0	15,660	13,076	5,331
Project 121900		2,165	815	815	0	1,613	1,350	552
			<u>815</u>	<u>8,730</u>	<u>0</u>	<u>17,273</u>	<u>14,426</u>	<u>5,883</u>
Total Child Nutrition Cluster			<u>456,195</u>	<u>8,730</u>	<u>0</u>	<u>586,961</u>	<u>584,114</u>	<u>5,883</u>
Total U.S. Department of Agriculture			<u>456,195</u>	<u>8,730</u>	<u>0</u>	<u>586,961</u>	<u>584,114</u>	<u>5,883</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

GLADWIN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2012	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2013
<u>U.S. Department of Health and Human Services</u>								
Passed through Clare Gladwin RESD:								
Medicaid Assistance Program Title XIX	93.778							
Medicaid Administrative Outreach		\$3,105	\$ 0	\$ 0	\$ 0	\$ 3,105	\$ 3,105	\$ 0
Total U.S. Department of Health and Human Services			<u>0</u>	<u>0</u>	<u>0</u>	<u>3,105</u>	<u>3,105</u>	<u>0</u>
			<u>\$ 1,724,556</u>	<u>\$ 532,736</u>	<u>\$ (97,472)</u>	<u>\$ 1,709,857</u>	<u>\$ 1,914,946</u>	<u>\$ 640,353</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

GLADWIN COMMUNITY SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Gladwin Community Schools under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Gladwin Community Schools, it is not intended to and does not present the financial position or changes in net position of Gladwin Community Schools.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

NOTE 3 - OTHER DISCLOSURES

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.



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October 17, 2013

Board of Education
Gladwin Community Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools (School District) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 17, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gladwin Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the School District's financial statements was:

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

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WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
October 17, 2013
Page 2

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: transactions associated with the refunding of the 2004 debt.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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



WEINLANDER FITZHUGH

Board of Education
Gladwin Community Schools
October 17, 2013
Page 3

Other Matters

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

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

Best regards,

Weinlander Fitzhugh