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GLADWIN COMMUNITY SCHOOLS GLADWIN, MICHIGAN

FINANCIAL STATEMENTS JUNE 30, 2012

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An Independently Owned Member
McGLADREY ALLIANCE



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Independent Auditors' Report

September 24, 2012

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
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Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools (School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools as of June 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, 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* and should be considered in assessing the results of our audit.

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CERTIFIED PUBLIC ACCOUNTANTS
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Board of Education
Gladwin Community Schools
September 24, 2012
Page 2

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The combining nonmajor fund financial statements, debt schedules and schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 financial statements. The combining nonmajor fund financial statements, debt schedules 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012.

Financial Highlights

The School District's net assets decreased by \$197,435 or 2%. Program revenues were \$3,392,367 or 19% of total revenues and general revenues were \$14,091,951 or 81%.

The General Fund reported a positive fund balance of \$2,413,233.

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 fund - the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. 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, 2012

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

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

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other 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 Assets 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 Assets and Changes in Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2012

District-wide Financial Analysis

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2012 and 2011:

Exhibit A	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 3,633,283	\$ 4,222,560
Capital assets - net of accumulated depreciation	<u>16,888,962</u>	<u>17,283,444</u>
Total assets	<u>20,522,245</u>	<u>21,506,004</u>
Liabilities		
Current liabilities	1,618,144	1,734,263
Long-term liabilities	<u>10,233,372</u>	<u>10,903,577</u>
Total liabilities	<u>11,851,516</u>	<u>12,637,840</u>
Net Assets		
Investment in capital assets - net of related debt	6,819,651	6,556,398
Restricted	104,605	40,049
Unrestricted	<u>1,746,473</u>	<u>2,271,717</u>
Total net assets	<u>\$ 8,670,729</u>	<u>\$ 8,868,164</u>

The table above focuses on net assets (see Exhibit A). The School District's net assets were \$8,670,729 at June 30, 2012. Capital assets, net of related debt totaling \$6,819,651, 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 \$1,746,473 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net assets for the years ended June 30, 2012 and 2011.

Exhibit B	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenue:		
Charges for services	\$ 516,901	\$ 409,003
Grants and categoricals	2,863,036	3,426,021
Capital contributions	12,430	0
General revenue:		
Property taxes	5,190,484	4,940,418
State foundation allowance	8,741,429	8,761,547
Other	160,038	109,055
Total revenues	<u>17,484,318</u>	<u>17,646,044</u>
Function/Program Expenses		
Instruction	9,699,543	9,478,089
Support services	5,611,445	6,318,823
Community services	7,419	4,652
Food services	778,198	772,686
Athletics	285,395	305,306
Adjustments to prior period revenue accounts	162,591	0
Interest	458,770	470,119
Depreciation (unallocated)	664,576	661,875
Amortization (unallocated)	13,816	13,815
Total expenses	<u>17,681,753</u>	<u>18,025,365</u>
Decrease in Net Assets	<u>\$ (197,435)</u>	<u>\$ (379,321)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$17,681,753. Certain activities were partially funded from those who benefited from the programs, \$516,901, capital contributions of \$12,430 or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$2,863,036. We paid for the remaining "public benefit" portion of our governmental activities with \$5,190,484 in taxes, \$8,741,429 in state foundation allowance and with our other revenues, such as interest and entitlements.

The School District had a decrease in net assets of \$197,435 due to the increased cost of retirement payable to the State of Michigan. The retirement rate increased from 20.66% to 24.46%. Net assets also decreased due to the payback of prior period revenues in the amount of \$162,591. Depreciation expense of fixed assets also decreased net assets. The decrease in net assets 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, 2012

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 \$2,598,127, which is below last year's total of \$2,880,164. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2012 and 2011.

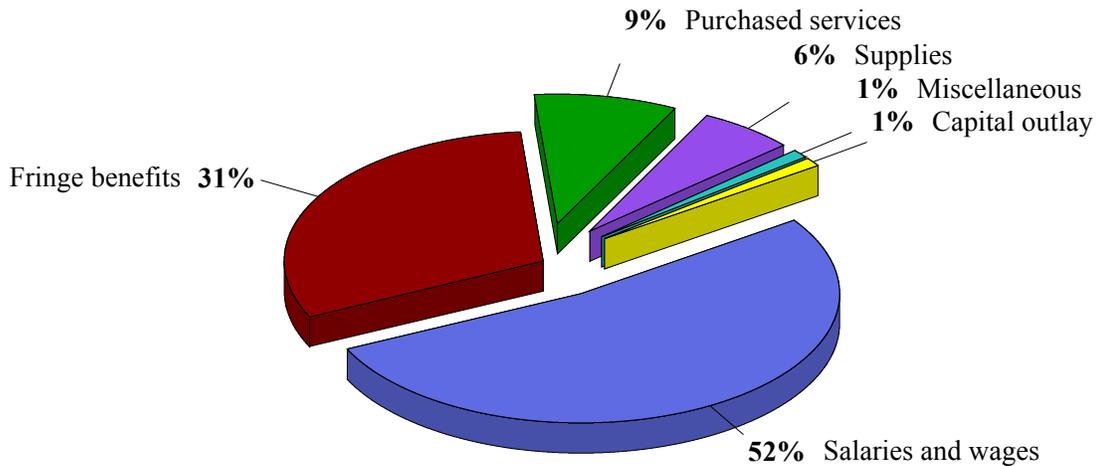
	<u>Fund Balance</u> <u>6/30/2012</u>	<u>Fund Balance</u> <u>6/30/2011</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,413,233	\$ 2,750,907	\$ (337,674)
Special Revenue	85,236	46,309	38,927
Debt Service	99,658	82,948	16,710
	<u>\$ 2,598,127</u>	<u>\$ 2,880,164</u>	<u>\$ (282,037)</u>

- Our General Fund had a decrease in fund balance of \$337,674 due to a repayment of prior year adult education revenue and increased retirement expense.
- Our Special Revenue Fund had an increase in fund balance of \$38,927 due to the increase of lunch prices mandated by the federal government and also the increase in the number of meals sold.
- Our Debt Service Funds are funded by local millage (tax collections). The increase of \$16,710 was due to the additional interest payments collected from late tax collections and also an increase in tax collections.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 8,272,015	\$ 8,348,424
Fringe benefits	4,829,974	4,638,124
Purchased services	1,360,601	1,669,523
Supplies	930,969	828,400
Capital outlay	85,782	172,051
Miscellaneous	203,390	299,540
Total	<u>\$ 15,682,731</u>	<u>\$ 15,956,062</u>

Expenditures have decreased by \$273,331 from the prior year primarily due to the adult education program discontinuing operation.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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 \$333,460. The increase was due to additional Federal revenue allocated to the School District.
- Budgeted expenditures increased from the original budget by \$27,395. This was due to the general changes in the everyday activity of the School District.
- Actual revenues were under the final budgeted revenue by \$123,513 due to federal grants not being used to their full approval amount. The grants will be carried over to the 2012-2013 fiscal year where appropriate.
- Actual expenditures exceeded the final budgeted expenditures by \$85,755 due to a last minute transportation fuel purchase and the second semester billing of career and technical education.

Capital Assets

At June 30, 2012, the School District had \$16,888,962 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 2% from last year.

	2012	2011
Land	\$ 156,307	\$ 137,920
Buildings and improvements	26,565,278	26,335,271
Buses and other vehicles	2,160,073	2,160,073
Furniture and equipment	583,912	726,562
Total capital assets	29,465,570	29,359,826
Less accumulated depreciation	12,576,608	12,076,382
Net capital assets	\$ 16,888,962	\$ 17,283,444

This year's additions of \$270,094 were for the adult education building reacquired by the School District, network and cabling upgrades and for the entrance gate at the high school football field which was partially funded by donations.

We anticipate that next year's capital additions will be comparable to the 2011-2012 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

GLADWIN COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Debt

At the end of this year, the School District had \$10,069,311 in bonds outstanding versus \$10,717,971 in the previous year - a decrease of 6%.

	2012	2011
2004 general obligation bonds	\$ 8,500,000	\$ 9,050,000
2007 general obligation bonds	1,555,000	1,640,000
Durant bonds	14,311	27,971
	\$ 10,069,311	\$ 10,717,971

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 2013 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 2013 fiscal year budget was adopted in June 2012, based on an estimate of students that will be enrolled in September 2012. 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 2012-2013 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2013 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 2012-2013.

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 Assets
June 30, 2012

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 1,175,293
Receivables:	
Accounts receivable	7,479
Due from other governmental units	2,278,899
Inventories	9,400
Bond issuance costs less accumulated amortization \$102,195	162,212
Capital assets less accumulated depreciation \$12,576,608	16,888,962
Total assets	20,522,245
<u>Liabilities</u>	
Accounts payable	102,240
Accrued payroll and other liabilities	696,517
Deferred revenue	73,868
Accrued interest payable	70,889
Internal balance	319
Long-term liabilities:	
Due within one year	674,311
Due in more than one year	10,233,372
Total liabilities	11,851,516
<u>Net Assets</u>	
Investment in capital assets - net of related debt	6,819,651
Restricted for debt service	28,769
Restricted for food services	75,836
Unrestricted	1,746,473
Total net assets	\$ 8,670,729

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	Program Revenues				Governmental Activities
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Capital Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	
Primary government -					
Governmental activities:					
Instruction	\$ 9,699,543	\$ 136,617	\$ 1,843,624	\$ 0	\$ (7,719,302)
Support services	5,611,445	82,737	252,838	0	(5,275,870)
Community services	7,419	0	108,800	0	101,381
Food services	778,198	202,409	620,782	0	44,993
Athletics	285,395	95,138	22,000	12,430	(155,827)
Adjustments to prior period revenue accounts	162,591	0	0	0	(162,591)
Interest	458,770	0	14,992	0	(443,778)
Depreciation (unallocated)	664,576	0	0	0	(664,576)
Amortization (unallocated)	13,816	0	0	0	(13,816)
Total governmental activities	<u>\$17,681,753</u>	<u>\$ 516,901</u>	<u>\$ 2,863,036</u>	<u>\$ 12,430</u>	<u>(14,289,386)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					4,081,755
Property taxes, levied for debt services					1,108,729
State aid					8,741,429
Interest and investment earnings					4,562
Other					132,896
Gain on repossession of adult ed building					22,580
Total general revenues					<u>14,091,951</u>
Change in net assets					(197,435)
Net assets - beginning of year					<u>8,868,164</u>
Net assets - end of year					<u>\$ 8,670,729</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
 Governmental Funds
 Balance Sheet
June 30, 2012

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 1,015,160	\$ 160,133	\$ 1,175,293
Receivables:			
Accounts receivable	4,296	3,183	7,479
Due from other funds	110	5,727	5,837
Due from other governmental units	2,270,169	8,730	2,278,899
Inventories	<u>0</u>	<u>9,400</u>	<u>9,400</u>
Total assets	<u>\$ 3,289,735</u>	<u>\$ 187,173</u>	<u>\$ 3,476,908</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 100,042	\$ 2,198	\$ 102,240
Due to other funds	6,075	81	6,156
Accrued payroll and other liabilities	696,517	0	696,517
Deferred revenue	<u>73,868</u>	<u>0</u>	<u>73,868</u>
Total liabilities	<u>876,502</u>	<u>2,279</u>	<u>878,781</u>
<u>Fund Balance</u>			
Nonspendable - inventories	0	9,400	9,400
Restricted for debt service	0	99,658	99,658
Restricted for food services	0	75,836	75,836
Unassigned	<u>2,413,233</u>	<u>0</u>	<u>2,413,233</u>
Total fund balance	<u>2,413,233</u>	<u>184,894</u>	<u>2,598,127</u>
Total liabilities and fund balance	<u>\$ 3,289,735</u>	<u>\$ 187,173</u>	<u>\$ 3,476,908</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Assets
June 30, 2012

Total fund balance - governmental funds	\$ 2,598,127
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	29,465,570
Accumulated depreciation	(12,576,608)
Other assets used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Bond issuance costs	264,407
Accumulated amortization	(102,195)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(10,069,311)
Compensated absences	(838,372)
Accrued interest payable is included as a liability in governmental activities	(70,889)
Total net assets - governmental activities	\$ 8,670,729

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, 2012

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>			
Local sources:			
Property Taxes	\$ 4,081,755	\$ 1,108,729	\$ 5,190,484
Other	472,761	203,223	675,984
State	9,548,054	41,500	9,589,554
Federal	<u>1,399,012</u>	<u>594,274</u>	<u>1,993,286</u>
Total revenues	<u>15,501,582</u>	<u>1,947,726</u>	<u>17,449,308</u>
<u>Expenditures</u>			
Current:			
Instruction	9,725,875	0	9,725,875
Support services	5,581,007	0	5,581,007
Athletics	285,395	0	285,395
Community services	7,419	0	7,419
Capital outlay	73,795	0	73,795
Food services	0	778,198	778,198
Debt service:			
Principal	9,075	648,660	657,735
Interest and other	<u>165</u>	<u>459,165</u>	<u>459,330</u>
Total expenditures	<u>15,682,731</u>	<u>1,886,023</u>	<u>17,568,754</u>
Excess (deficiency) of revenues over expenditures	<u>(181,149)</u>	<u>61,703</u>	<u>(119,446)</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other funds	15,406	9,340	24,746
Operating transfers out to other funds	(9,340)	(15,406)	(24,746)
Adjustments to prior period revenue accounts	<u>(162,591)</u>	<u>0</u>	<u>(162,591)</u>
Total other financing sources (uses)	<u>(156,525)</u>	<u>(6,066)</u>	<u>(162,591)</u>
Net change in fund balance	(337,674)	55,637	(282,037)
Fund balance - beginning of year	<u>2,750,907</u>	<u>129,257</u>	<u>2,880,164</u>
Fund balance - end of year	<u>\$ 2,413,233</u>	<u>\$ 184,894</u>	<u>\$ 2,598,127</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, 2012

Net change in fund balance - total governmental funds	\$ (282,037)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Amortization expense	(13,816)
Depreciation expense	(664,576)
Capital outlay	73,795
Contributed fixed assets	12,430
Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	9,075
Gain on repossession of land contract receivable	22,580
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Other costs related to debt issuance and retirement use governmental fund resources but recognize them as expenses through amortization on the statement of activities	648,660
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	(4,106)
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	560
Change in net assets of governmental activities	<u>\$ (197,435)</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2012

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ 185,247
Due from other funds	319
	<u>185,566</u>
 <u>Liabilities</u>	
Due to student groups	<u>\$ 185,566</u>

See accompanying notes to financial statements.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational 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, 2012

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.

The School District reports the following major governmental fund:

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

Assets, Liabilities, and Net Assets or Equity

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.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements. Bond issuance costs are reflected only in the district-wide financial statements and will be amortized over a twelve year period. Accumulated amortization at June 30, 2012 is \$102,195.

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.

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Aid - For the fiscal year ended June 30, 2012, 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, 2012, the foundation allowance was based on the average pupil membership counts taken in February and September of 2011.

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 2011 - August 2012. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2012 (included in due/from other governmental units) relating to state aid is \$1,720,390.

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 auditors' 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, 2012

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, 2012, 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:			
State sources	\$ 9,649,803	\$ 9,548,054	\$ (101,749)
Federal sources	1,473,972	1,399,012	(74,960)
Expenditures:			
General Fund:			
Added needs	2,316,411	2,332,525	(16,114)
General administrative	248,536	250,285	(1,749)
School administrative	1,053,710	1,062,081	(8,371)
Business services	534,220	558,673	(24,453)
Operations and maintenance	926,025	970,683	(44,658)
Transportation	1,050,618	1,054,130	(3,512)
Athletics	281,708	285,395	(3,687)
Community services	6,285	7,419	(1,134)

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

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	\$ 1,175,293	\$ 185,247	\$ 1,360,540

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,291,967
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity not to exceed 60 days	68,374
Petty cash and cash on hand	199
Total	\$ 1,360,540

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, 2012, \$1,019,867 of the School District's bank balance of \$1,519,867 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, 2012

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2012</u>
Assets not being depreciated:				
Land	\$ 137,920	\$ 18,387	\$ 0	\$ 156,307
Capital assets being depreciated:				
Buildings and improvements	26,335,271	230,007	0	26,565,278
Buses and other vehicles	2,160,073	0	0	2,160,073
Furniture and equipment	726,562	21,700	(164,350)	583,912
Subtotal	<u>29,221,906</u>	<u>251,707</u>	<u>(164,350)</u>	<u>29,309,263</u>
Accumulated depreciation:				
Buildings and improvements	9,971,706	517,004	0	10,488,710
Buses and other vehicles	1,529,355	119,676	0	1,649,031
Furniture and equipment	575,321	27,896	(164,350)	438,867
Subtotal	<u>12,076,382</u>	<u>664,576</u>	<u>(164,350)</u>	<u>12,576,608</u>
Net capital assets being depreciated	<u>17,145,524</u>	<u>(412,869)</u>	<u>0</u>	<u>16,732,655</u>
Net capital assets	<u>\$ 17,283,444</u>	<u>\$ (394,482)</u>	<u>\$ 0</u>	<u>\$ 16,888,962</u>

Depreciation expense for fiscal year ended June 30, 2012 was \$664,576. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - INTERFUND TRANSFERS AND BALANCES

A summary of inter-fund receivable and payable balances at June 30, 2012 and transfers made during the year ended June 30, 2012 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 110	\$ 6,075	\$ 15,406	\$ 9,340
Special Revenue:				
Food Service	5,177	6	9,340	15,406
Debt Service				
2004 Debt	550	75	0	0
Agency	319	0	0	0
	<u>\$ 6,156</u>	<u>\$ 6,156</u>	<u>\$ 24,746</u>	<u>\$ 24,746</u>

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - INTERFUND TRANSFERS AND BALANCES (CONTINUED)

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, 2012:

	Balance <u>June 30, 2011</u>	<u>Additions</u>	Retirements <u>and Payments</u>	Balance <u>June 30, 2012</u>	Amount Due Within One <u>Year</u>
Bonds	\$ 10,717,971	\$ 0	\$ 648,660	\$ 10,069,311	\$ 674,311
Land contract	9,075	0	9,075	0	0
Retirement stipends and compensated absences	834,266	4,106	0	838,372	0
	<u>\$ 11,561,312</u>	<u>\$ 4,106</u>	<u>\$ 657,735</u>	<u>\$ 10,907,683</u>	<u>\$ 674,311</u>

Bonds payable at June 30, 2012 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%	\$ 8,500,000
\$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%	1,555,000
\$213,501 Durant Non-Plaintiff serial bonds due in annual installments of \$10,824 to \$49,901 through May 15, 2013; interest at 4.76%	<u>14,311</u>
Total Bonded Debt	<u>\$ 10,069,311</u>

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

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 \$347,130 and \$491,242 respectively at June 30, 2012.

The annual requirements to amortize bonds outstanding as of June 30, 2012 including interest payments are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 674,311	\$ 434,944	\$ 1,109,255
2014	685,000	409,300	1,094,300
2015	715,000	381,900	1,096,900
2016	745,000	353,300	1,098,300
2017	780,000	320,250	1,100,250
2018 - 2022	4,475,000	1,050,125	5,525,125
2023 - 2024	1,995,000	132,450	2,127,450
	<u>\$ 10,069,311</u>	<u>\$ 3,082,269</u>	<u>\$ 13,151,580</u>

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.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description - The School District participates in the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement, survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the School District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. 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, MI 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute 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 January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining into the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000 and 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 interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. 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 employee's 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 contributions for those years.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

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

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

<u>Contribution Period</u>	<u>Contribution Rate</u>	
	<u>Member</u>	<u>Pension Plus Member</u>
October 1, 2011 - September 30, 2012	24.46%	23.23%
November 1, 2010 - September 30, 2011	20.66%	19.16%
October 1, 2010 - October 31, 2010	19.41%	17.91%
October 1, 2009 - September 30, 2010	16.94%	0%
July 1, 2010 - September 30, 2010	0%	15.44%

<u>Fiscal Year Ending June 30,</u>	<u>Contributions to</u>
	<u>MPSERS</u>
2012	\$ 1,832,769
2011	\$ 1,644,854
2010	\$ 1,495,580

Other Post-employment Benefits - Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 required each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

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 has appealed the ruling to the Michigan Court of Appeals. The Court of Appeals has 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. Should the plaintiffs prevail in the litigation, the escrowed funds will be returned to the state employees.

Pension recipients are generally eligible for fully paid Master Health Insurance Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing coverage.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2012

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

The School District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

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.

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 \$31,168, \$30,748, \$28,648 and \$4,775 for the years ending June 30, 2013, 2014, 2015 and 2016, respectively. Rent expense for the copier lease was \$28,648 for the year ending June 30, 2012.

NOTE 12 - ADJUSTMENTS TO PRIOR PERIOD REVENUE ACCOUNTS

The School District's adult education program underwent an audit with the State of Michigan during the year ended June 30, 2012. During the audit, it was determined that the School District would be required to repay the State of Michigan \$117,089 of revenue that was received during prior years.

The Federal Adult Education (ABE) Program and Title I also were required to be repaid to the State of Michigan in the amount of \$34,690 and \$10,812, respectively.

GLADWIN COMMUNITY SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Local sources:				
Property Taxes	\$ 4,007,892	\$ 4,081,734	\$ 4,081,755	\$ 21
Other	318,904	419,586	472,761	53,175
State	9,404,159	9,649,803	9,548,054	(101,749)
Federal	1,560,680	1,473,972	1,399,012	(74,960)
Total revenues	<u>15,291,635</u>	<u>15,625,095</u>	<u>15,501,582</u>	<u>(123,513)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	7,118,136	7,396,922	7,389,201	7,721
Added needs	2,954,086	2,316,411	2,332,525	(16,114)
Adult/Continuing Ed	0	4,799	4,149	650
Support services:				
Pupil	861,768	1,067,673	1,062,818	4,855
Instructional staff	313,705	626,992	622,337	4,655
General administrative	227,269	248,536	250,285	(1,749)
School administrative	1,068,932	1,053,710	1,062,081	(8,371)
Business services	808,605	534,220	558,673	(24,453)
Operations and maintenance	906,307	926,025	970,683	(44,658)
Transportation	1,015,532	1,050,618	1,054,130	(3,512)
Athletics	265,641	281,708	285,395	(3,687)
Community services	0	6,285	7,419	(1,134)
Capital outlay	0	73,837	73,795	42
Debt service	29,600	9,240	9,240	0
Total expenditures	<u>15,569,581</u>	<u>15,596,976</u>	<u>15,682,731</u>	<u>(85,755)</u>
Excess (deficiency) of revenues over expenditures	<u>(277,946)</u>	<u>28,119</u>	<u>(181,149)</u>	<u>(209,268)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in from other funds	0	0	15,406	15,406
Operating transfers out to other funds	0	(9,340)	(9,340)	0
Adjustments to prior period revenue accounts	0	(162,591)	(162,591)	0
Total other financing sources (uses)	<u>0</u>	<u>(171,931)</u>	<u>(156,525)</u>	<u>15,406</u>
Net change in fund balance	(277,946)	(143,812)	(337,674)	(193,862)
Fund balance - beginning of year	<u>2,750,907</u>	<u>2,750,907</u>	<u>2,750,907</u>	<u>0</u>
Fund balance - end of year	<u>\$ 2,472,961</u>	<u>\$ 2,607,095</u>	<u>\$ 2,413,233</u>	<u>\$ (193,862)</u>

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Fund	Debt Service Funds			
	Food Services	2004 Issue	2007 Issue	Durant Issue	Total
<u>Assets</u>					
Cash and investments	\$ 60,950	\$ 89,588	\$ 9,595	\$ 0	\$ 160,133
Receivables:					
Accounts receivable	3,183	0	0	0	3,183
Due from other funds	5,177	550	0	0	5,727
Due from other governmental units	8,730	0	0	0	8,730
Inventories	9,400	0	0	0	9,400
Total assets	<u>\$ 87,440</u>	<u>\$ 90,138</u>	<u>\$ 9,595</u>	<u>\$ 0</u>	<u>\$ 187,173</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 2,198	\$ 0	\$ 0	\$ 0	\$ 2,198
Due to other funds	6	75	0	0	81
Total liabilities	<u>2,204</u>	<u>75</u>	<u>0</u>	<u>0</u>	<u>2,279</u>
<u>Fund Balance</u>					
Nonspendable - inventories	9,400	0	0	0	9,400
Restricted for debt service	0	90,063	9,595	0	99,658
Restricted for food services	75,836	0	0	0	75,836
Total fund balance	<u>85,236</u>	<u>90,063</u>	<u>9,595</u>	<u>0</u>	<u>184,894</u>
Total liabilities and fund balance	<u>\$ 87,440</u>	<u>\$ 90,138</u>	<u>\$ 9,595</u>	<u>\$ 0</u>	<u>\$ 187,173</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, 2012

	Special	Debt Service Funds			Total
	Revenue Fund Food Services	2004 Issue	2007 Issue	Durant Issue	
<u>Revenues</u>					
Local sources:					
Property Taxes	\$ 0	\$ 953,711	\$ 155,018	\$ 0	\$ 1,108,729
Other	202,409	814	0	0	203,223
State	26,508	0	0	14,992	41,500
Federal	594,274	0	0	0	594,274
Total revenues	<u>823,191</u>	<u>954,525</u>	<u>155,018</u>	<u>14,992</u>	<u>1,947,726</u>
<u>Expenditures</u>					
Current:					
Food services	778,198	0	0	0	778,198
Debt service:					
Principal	0	550,000	85,000	13,660	648,660
Interest and other	0	391,908	65,925	1,332	459,165
Total expenditures	<u>778,198</u>	<u>941,908</u>	<u>150,925</u>	<u>14,992</u>	<u>1,886,023</u>
Excess (deficiency) of revenues over expenditures	<u>44,993</u>	<u>12,617</u>	<u>4,093</u>	<u>0</u>	<u>61,703</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in from other funds	9,340	0	0	0	9,340
Operating transfers out to other funds	(15,406)	0	0	0	(15,406)
Total other financing sources (uses)	<u>(6,066)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,066)</u>
Net change in fund balance	38,927	12,617	4,093	0	55,637
Fund balance - beginning of year	46,309	77,446	5,502	0	129,257
Fund balance - end of year	<u>\$ 85,236</u>	<u>\$ 90,063</u>	<u>\$ 9,595</u>	<u>\$ 0</u>	<u>\$ 184,894</u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness
 For the Year Ended June 30, 2012

<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	\$ 2,550,000	
	During current year	<u>550,000</u>	<u>3,100,000</u>
<u>BALANCE OUTSTANDING - June 30, 2012</u>			<u>\$ 8,500,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	3.50%	\$ 575,000	\$ 372,063	\$ 947,063
2014	3.75%	600,000	350,500	950,500
2015	4.00%	625,000	326,500	951,500
2016	4.50%	650,000	301,500	951,500
2017	4.50%	675,000	272,250	947,250
2018	4.50%	700,000	241,875	941,875
2019	4.50%	725,000	210,375	935,375
2020	4.50%	750,000	177,750	927,750
2021	4.50%	775,000	144,000	919,000
2022	4.50%	800,000	109,125	909,125
2023	4.50%	800,000	73,125	873,125
2024	4.50%	<u>825,000</u>	<u>37,125</u>	<u>862,125</u>
		<u>\$ 8,500,000</u>	<u>\$ 2,616,188</u>	<u>\$ 11,116,188</u>

GLADWIN COMMUNITY SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness
 For the Year Ended June 30, 2012

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	\$ 760,000	
During current year	<u>85,000</u>	<u>845,000</u>

BALANCE OUTSTANDING - June 30, 2012

\$ 1,555,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	4.00%	\$ 85,000	\$ 62,200	\$ 147,200
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>\$ 1,555,000</u>	<u>\$ 465,400</u>	<u>\$ 2,020,400</u>

GLADWIN COMMUNITY SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness
For the Year Ended June 30, 2012

<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	\$	185,530	
	During current year	<u>13,660</u>	<u>199,190</u>	
<u>BALANCE OUTSTANDING - June 30, 2012</u>		<u>\$</u>	<u>14,311</u>	
			<u>Requirements</u>	
<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	4.76%	<u>\$ 14,311</u>	<u>\$ 681</u>	<u>\$ 14,992</u>



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

Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools, as of and for the year ended June 30, 2012, which collectively comprise Gladwin Community Schools' basic financial statements and have issued our report thereon dated September 24, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Gladwin Community Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Gladwin Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gladwin Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gladwin Community Schools' internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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CERTIFIED PUBLIC ACCOUNTANTS
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Board of Education
Gladwin Community Schools
September 24, 2012
Page 2

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2012-1. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gladwin Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

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

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Gladwin Community Schools
Gladwin, Michigan

Compliance

We have audited Gladwin Community Schools' compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Gladwin Community Schools' major federal programs are identified in the summary of auditor's results section in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Gladwin Community Schools' management. Our responsibility is to express an opinion on Gladwin Community Schools' compliance based on our audit.

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

In our opinion, Gladwin Community Schools complied, in all material respects, with the 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, 2012.

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Board of Education
Gladwin Community Schools
September 24, 2012
Page 2

Internal Control over Compliance

Management of Gladwin Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Gladwin Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
 Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? YES NO
- Significant deficiency(ies) identified? YES NO

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 NO

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Handicapped Preschool and School Program, IDEA
84.010, 84.389	ECIA Title I 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, 2012

SECTION II - Financial Statement Findings

2012-1 (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.

Criteria

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

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
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2012

2011-2

Audit Finding

Lack of semi-annual certification documentation for employees who worked on a single cost objective were not properly documented as required by OMB Circular A-87.

Corrective Action Taken

Procedures were modified to ensure that proper documentation is obtained on employees who work on a single cost objective as required by OMB Circular A-87. These procedures are being monitored by the business manager, Julie Shearer.

GLADWIN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 01, 2011	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2012
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education:								
Adult Education - State Administration	84.002A							
Project 111130-111787		\$ 76,000	\$ 76,000	\$ 491	\$ (25,642)	\$ (25,151)	\$ 0	\$ 0
Project 111150-114302		25,000	25,000	0	(5,049)	(5,049)	0	0
Project 111190-111787		40,271	40,271	6,451	(3,999)	2,452	0	0
			<u>141,271</u>	<u>6,942</u>	<u>(34,690)</u>	<u>(27,748)</u>	<u>0</u>	<u>0</u>
ECIA Title I Cluster								
ECIA Title I	84.010							
Project 111530-1011		806,184	794,000	97,088	(10,812)	86,276	0	0
Project 121530-1112		838,389	0	0	0	507,743	809,312	301,569
ECIA Title I ARRA	84.389							
Project 111535-1011		237,430	202,450	46,501	0	80,291	33,790	0
Total ECIA Title I Cluster			<u>996,450</u>	<u>143,589</u>	<u>(10,812)</u>	<u>674,310</u>	<u>843,102</u>	<u>301,569</u>
ECIA Title VI, Part B	84.358							
Project 110660-1011		47,979	0	0	0	22,897	34,923	12,026
ECIA Title IIA	84.367							
Project 110520-1011		242,862	160,000	57,505	0	100,981	43,476	0
Project 120520-1112		210,214	0	0	0	78,737	154,169	75,432
			<u>160,000</u>	<u>57,505</u>	<u>0</u>	<u>179,718</u>	<u>197,645</u>	<u>75,432</u>
ECIA Title IID	84.386							
Project 114295-1011		15,700	0	0	0	15,610	15,610	0
Education Stabilization Fund	84.394							
Project 112525-1011		218,134	218,134	59,507	0	59,507	0	0
Education Jobs Fund	84.410A							
Project 112545-1011		31,429	0	0	0	31,429	31,429	0
Passed through Clare Gladwin RESD:								
Handicapped Preschool and School Program, IDEA	84.027							
Project 110450-1011		269,857	0	0	0	134,978	269,957	134,979
Education for Homeless Children and Youth.	84.196							
Project 122320-1112		1,977	0	0	0	1,977	1,977	0
Total U.S. Department of Education			<u>1,515,855</u>	<u>267,543</u>	<u>(45,502)</u>	<u>1,092,678</u>	<u>1,394,643</u>	<u>524,006</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, 2012

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 01, 2011	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2012
<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		\$ 50,927	\$ 0	\$ 0	\$ 0	\$ 51,049	\$ 51,049	\$ 0
National School Lunch - Bonus		5,338	0	0	0	5,338	5,338	0
			<u>0</u>	<u>0</u>	<u>0</u>	<u>56,387</u>	<u>56,387</u>	<u>0</u>
Cash Assistance								
Breakfast								
	10.553							
Project 111970		86,985	85,238	0	0	10,747	10,747	0
Project 121970		95,852	0	0	0	95,852	95,852	0
			<u>85,238</u>	<u>0</u>	<u>0</u>	<u>106,599</u>	<u>106,599</u>	<u>0</u>
Cash Assistance								
Free and reduced lunches								
	10.555							
Project 111960		321,640	278,472	0	0	43,168	43,168	0
Project 111980		11,210	10,840	0	0	370	370	0
Project 121960		348,491	0	0	0	348,491	348,491	0
Project 121980		10,535	0	0	0	10,535	10,535	0
			<u>289,312</u>	<u>0</u>	<u>0</u>	<u>402,564</u>	<u>402,564</u>	<u>0</u>
Special Milk								
	10.556							
Project 111940		544	480	0	0	64	64	0
Project 121940		502	0	0	0	502	502	0
			<u>480</u>	<u>0</u>	<u>0</u>	<u>566</u>	<u>566</u>	<u>0</u>
Summer Food								
	10.559							
Project 110900		33,476	15,864	0	0	17,612	17,612	0
Project 111900		1,816	0	0	0	1,816	1,816	0
Project 120900		7,915	0	0	0	0	7,915	7,915
Project 121900		815	0	0	0	0	815	815
			<u>15,864</u>	<u>0</u>	<u>0</u>	<u>19,428</u>	<u>28,158</u>	<u>8,730</u>
Total Child Nutrition Cluster			<u>390,894</u>	<u>0</u>	<u>0</u>	<u>585,544</u>	<u>594,274</u>	<u>8,730</u>
Total U.S. Department of Agriculture			<u>390,894</u>	<u>0</u>	<u>0</u>	<u>585,544</u>	<u>594,274</u>	<u>8,730</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, 2012

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 01, 2011	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2012
<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		\$ 4,369	\$ 0	\$ 0	\$ 0	\$ 4,369	\$ 4,369	\$ 0
Total U.S. Department of Health and Human Services			<u>0</u>	<u>0</u>	<u>0</u>	<u>4,369</u>	<u>4,369</u>	<u>0</u>
			<u>\$ 1,906,749</u>	<u>\$ 267,543</u>	<u>\$ (45,502)</u>	<u>\$ 1,682,591</u>	<u>\$ 1,993,286</u>	<u>\$ 532,736</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, 2012

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - OTHER DISCLOSURES

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



WEINLANDER FITZHUGH

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September 24, 2012

Board of Education
Gladwin Community Schools
Gladwin, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools (School District) for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under 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 May 16, 2012. 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 School District 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 the year ended June 30, 2012. We noted no transactions entered into by the governmental unit 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 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 it is reasonable in relation to the financial statements taken as a whole.

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CERTIFIED PUBLIC ACCOUNTANTS
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Board of Education
Gladwin Community Schools
September 24, 2012
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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. 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.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 September 24, 2012.

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 governmental unit'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 governmental unit'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

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

Board of Education
Gladwin Community Schools
September 24, 2012
Page 3

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 the 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.

Very truly yours,

Weinlander Fitzhugh