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GLADWIN COMMUNITY SCHOOLS GLADWIN, MICHIGAN

FINANCIAL STATEMENTS JUNE 30, 2011

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An Independently Owned Member
McGLADREY ALLIANCE



TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3a-3m
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Fiduciary Fund:	
Statement of Fiduciary Net Assets	10
Notes to Financial Statements	11-24
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	25

TABLE OF CONTENTS

	<u>Page</u>
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds	26
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Nonmajor Governmental Funds	27
Schedule of Bonded Indebtedness	28-30
Report on Internal Control Over Financial Reporting and on Compliance with Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	31-32
Report on Compliance with Requirements could have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance with OMB Circular A-133	33-34
Schedule of Findings and Questioned costs	35-37
Schedule of Expenditures of Federal Awards	38-39
Notes to the Schedule of Expenditures of Federal Awards	40



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Independent Auditors' Report

September 27, 2011

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, 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, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gladwin Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Gladwin Community Schools as of June 30, 2011, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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Board of Education
Gladwin Community Schools
September 27, 2011

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2011 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents is not a required part of the basic financial statements but are supplemental information required by the U.S. generally accepted accounting principles and Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gladwin Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements, debt schedules and schedule of expenditures of federal awards are presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, debt schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental fund:

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

Assets, Liabilities and Net Assets or Equity

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

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

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and 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, 2011 is \$88,379.

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

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

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund Equity - 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 reported 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 Board of Education 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 expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

The 2010 taxable valuation of the School District totaled \$513 million, on which ad valorem taxes levied consisted of 17.17850 mills for School District operating purposes and .1720 for debt service, raising \$4.0 million for operating and \$892,000 for debt service. These amounts are recognized in the respective General Fund and Debt Service Fund financial statements as due from other governments or as tax revenue.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Aid – For the fiscal year ended June 30, 2011, 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, 2011, the foundation allowance was based on the average pupil membership counts taken in February and September of 2010.

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 2010 – August 2011. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2011 (included in due/from other governmental units) relating to state aid is \$1,743,119.

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 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.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 2 – BUDGETS (CONTINUED)

2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board 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, 2011, the School District recorded revenues in certain budgetary funds which were under the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Revenues</u>	<u>Budget</u> <u>Variance</u>
General Fund:			
Local sources	\$ 4,399,194	\$ 4,381,693	\$(17,501)
State sources	9,483,074	9,474,573	(8,501)
Federal sources	2,303,843	2,137,609	(166,234)

During the year ended June 30, 2011, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund:			
Added needs	\$ 2,391,084	\$ 2,394,132	\$ (3,048)
Instructional staff	763,015	767,564	(4,549)
General administration	242,343	258,650	(16,307)
Business services	857,929	884,564	(26,635)
Operations and maintenance	1,130,130	1,140,810	(10,680)
Transportation	1,113,223	1,134,888	(21,665)
Athletics	289,201	305,305	(16,104)
Community Services	4,092	4,652	(560)

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

	Governmental Activities	Fiduciary Fund	Total Primary Government
Cash and investments	\$ 1,743,382	\$ 178,026	\$ 1,921,408

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,852,287
Investments in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity not to exceed 60 days	68,322
Petty cash and cash on hand	799
Total	\$ 1,921,408

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, 2011, \$1,469,118 of the School District’s bank balance of \$1,969,118 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, 2011

NOTE 4 - CAPITAL ASSETS

A summary of changes in Governmental capital assets follows:

	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Assets not being depreciated				
Land	\$ 137,920	\$ 0	\$ 0	\$ 137,920
Capital assets being depreciated:				
Building and improvements	26,290,292	44,979	0	26,335,271
Buses and other vehicles	2,258,281	0	(98,208)	2,160,073
Furniture and equipment	699,380	33,619	(6,437)	726,562
Subtotal	<u>29,247,953</u>	<u>78,598</u>	<u>(104,645)</u>	<u>29,221,906</u>
Accumulated depreciation:				
Building and improvements	9,458,032	513,674	0	9,971,706
Buses and other vehicles	1,506,043	121,520	(98,208)	1,529,355
Furniture and equipment	555,077	26,681	(6,437)	575,321
Subtotal	<u>11,519,152</u>	<u>661,875</u>	<u>(104,645)</u>	<u>12,076,382</u>
Net capital assets being depreciated	<u>17,728,801</u>	<u>(583,277)</u>	<u>0</u>	<u>17,145,524</u>
Net capital assets	<u>\$17,866,721</u>	<u>\$ (583,277)</u>	<u>\$ 0</u>	<u>\$17,283,444</u>

Depreciation for fiscal year ended June 30, 2011 amounted to \$661,875. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of inter-fund receivable and payable balances at June 30, 2011 and transfers made during the year ended June 30, 2011 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 33,158	\$ 5,116	\$ 0	\$ 0
Special Revenue:				
Food Service	5,116	33,158	0	0
2004 Debt	0	0	0	3,893
2007 Debt	0	0	3,893	0
	<u>\$ 38,274</u>	<u>\$ 38,274</u>	<u>\$ 3,893</u>	<u>\$ 3,893</u>

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

Transfers are used to record the property tax revenue collected and the debt service payments made by the 2004 Debt Service fund for the 2007 Debt Service fund.

NOTE 6 – LAND CONTRACT RECEIVABLE

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 7 – LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Retirements and Payments	Balance June 30, 2011	Amount Due Within One Year
Bonds	\$ 11,306,011	\$ 0	\$ 588,040	\$ 10,717,971	\$ 648,660
Land contract	37,073	0	27,998	9,075	9,075
Retirement stipends and compensated absences	651,652	182,614	0	834,266	0
Total	<u>\$ 11,994,736</u>	<u>\$ 182,614</u>	<u>\$ 616,038</u>	<u>\$ 11,561,312</u>	<u>\$ 657,735</u>

Bonds payable at June 30, 2011 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 4.50%	\$ 9,050,000
\$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%	1,640,000
\$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>27,971</u>
Total Bonded Debt	<u>\$ 10,717,971</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, 2011

NOTE 7 – 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.

Gladwin Community Schools entered into a land contract obligation on May 25, 2002 for a building to be used for the alternative education program in the amount of \$210,000. The land contract calls for quarterly installments of \$7,400 including interest at 6%. The principal balance at June 30, 2011 was \$9,075.

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 \$342,262 and \$492,004 respectively at June 30, 2011.

The annual requirements to amortize bonds and the land contract outstanding as of June 30, 2011 including interest payments are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 657,735	\$ 458,408	\$ 1,116,143
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
2017-2021	4,280,000	1,239,450	5,519,450
2022-2024	2,970,000	263,375	3,233,375
	<u>\$ 10,727,046</u>	<u>\$ 3,540,677</u>	<u>\$ 14,267,723</u>

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 8 – RISK MANAGEMENT

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

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

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The School District contributes to 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, Michigan 48909-7671 or by calling (800) 381-5111.

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 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, Public Act 75 of 2010 was signed 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 pension) account.

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (CONTINUED)

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. The rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for Pension Plus Members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for Pension Plus Members for the period November 1, 2010 through June 30, 2011. In addition, the School District is required to match 50% up to 1% of the employees' contribution in the Pension Plus Plan. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The School District contributions to MPSERS for the years ended June 30, 2011, 2010 and 2009 were \$1,644,854, \$1,495,580 and \$1,426,872, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. MPSERS 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 MPSERS with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires 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. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

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

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 10 – GRANTS

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

GLADWIN COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2011

NOTE 11 – ECONOMIC DEPENDENCY

The School District received approximately 59% 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 12 – OPERATING LEASE

The organization leases two separate copy machines under operating leases expiring during the year ending June 30, 2014. Minimum future rental payments are \$5,760, \$5,760 and \$4,260 for the years ending June 30, 2012, 2013 and 2014, respectively. Rent expense for the copier lease was \$1,500 for the year ending June 30, 2011.



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September 27, 2011

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, 2011, and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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.

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,

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Board of Education
Gladwin Community Schools
September 27, 2011

as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting, 2011-1. 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 Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gladwin Community Schools' responses 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 type of compliance requirements described in the 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, 2011. Gladwin Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gladwin Community Schools' management. Our responsibility is to express an opinion on Gladwin Community Schools' compliance based on our audit.

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

In our opinion, Gladwin Community Schools' complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Finding and Questioned Costs as item 2011-2.

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Board of Education
Gladwin Community Schools
September 27, 2011

Internal Control over Compliance

Management of Gladwin Community Schools' is responsible for establishing and maintaining effective internal control over compliance with the requirement of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Gladwin Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh

GLADWIN COMMUNITY SCHOOLS
 Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? YES NO
- Significant deficiencies identified? YES NO

Noncompliance material to financial statements noted? YES NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? YES NO
- Significant deficiencies identified? 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>
84.410A	Education Jobs Fund
84.367	Title II, Part A, Improving Teacher Quality
84.394	American Recovery and Reinvestment Act

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, 2011

SECTION II - Financial Statement Findings

2011-1

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 School 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.

GLADWIN COMMUNITY SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

SECTION III - Federal Award Findings and Questioned Costs

2011-2

Program

Title II, Part A – CFDA Number 84.367

Criteria

Semi-annual certification documentation of employees that work solely on a single federal award as required by Circular A-87.

Condition

Lack of semi-annual certification documentation.

Questioned costs

Payroll and payroll related expenses for Title II, Part A.

Context

Applicable to employees that work solely on a single federal award.

Effect

Lack of required documentation

Cause

Lack of information on current Title II, Part A requirements

Recommendation

Begin semi-annual certification documentation on employees that work solely on a single federal award as required by Circular A-87

Views of responsible officials and planned corrective actions

Management will begin the semi-annual certification for employees that work solely on a single federal award at the beginning of the 2011-2012 school year.

GLADWIN COMMUNITY SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

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.