

**GWINN AREA COMMUNITY SCHOOLS
GWINN, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

TABLE OF CONTENTS

Independent Auditors' Report 4
Management's Discussion and Analysis (Unaudited) 6

BASIC FINANCIAL STATEMENTS

District-wide Financial Statements:

Statement of Net Assets 17
Statement of Activities 18

Fund Financial Statements:

Governmental Funds:

Balance Sheet 19
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets 20
Statement of Revenues, Expenditures and Changes in Fund Balance 21
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to the Statement of Activities 22

Fiduciary Funds:

Statement of Fiduciary Net Assets 23
Statement of Changes in Fiduciary Net Assets 24
Statement of Fiduciary Net Assets - Student Activities 25

Notes to Financial Statements 26

REQUIRED SUPPLEMENTAL INFORMATION

General Fund – Budgetary Comparison Schedule 42
Performance Contract Fund – Budgetary Comparison Schedule 43

SUPPLEMENTAL INFORMATION

Non-Major Governmental Funds:

Combining Balance Sheet 45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance 46

Non-Major Special Revenue Funds

Combining Balance Sheet 47
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance 48

School Lunch Fund – Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual 49

Athletic Fund – Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual 50

Non-Major Debt Service Funds

Combining Balance Sheet 51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance 52

Debt Service Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	53
Debt Service QZAB Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	54
Non-Major Capital Projects Funds	
Combining Balance Sheet	55
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	56
Capital Projects Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	57
Capital Projects QZAB Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	58

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	60
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	62
Schedule of Expenditures of Federal Awards	64
Notes to Schedule of Expenditures of Federal Awards	67
Schedule of Findings and Questioned Costs	69
Summary Schedule of Prior Audit Findings	71

COMMUNICATIONS SECTION

Report to Management Letter	73
Communications with Those Charged with Governance	75



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, Gwinn, Michigan, as of and for the year ended June 30, 2009, which collectively comprise the Gwinn Area Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gwinn Area Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2009 on our consideration of the Gwinn Area Community Schools' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 42 through 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 28, 2009

GWINN AREA COMMUNITY SCHOOLS

YEAR ENDED JUNE 30, 2009

Gwinn Area Community Schools is a K-12 Public School District located in Marquette County, Michigan. Our discussion and analysis of Gwinn Area Community Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2009. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- Net assets for Gwinn Area Community Schools as a whole were reported as \$2,772,809. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools expenses were \$13,540,248, while revenues from all sources totaled \$12,871,981, resulting in a decrease in net assets of \$668,268.
- September 2008 enrollment decreased 38.67 FTEs over the prior year. The district was able to qualify for declining enrollment assistance under section 6(4)(y) of the State Aid School Act which allows the district's average three year membership to be used in funding calculations.
- The Foundation Allowance increased \$112 to \$7,316 per student.
- It was again necessary for the district to borrow from the Michigan Municipal Bond Authority (MMBA). The short-term agreement was for \$1,000,000 and was paid back in full in August 2009.
- The general fund reported an increase in fund balance of \$26,188 after other financing sources (uses). This is \$116,859 more than the forecasted decrease of \$90,671 which is a net result of revenues totaling \$6,935 less and expenditures totaling \$116,987 less. Both of these do not include Federal program grants. In addition, net transfers ended up coming in at \$6,807 better than anticipated. These variances are all immaterial, less than 1%, when compared with budgeted revenues/transfers of \$12,242,620 and budgeted expenditures/transfers of \$12,333,291. There were no significant variances between the final budget and actual amounts.
- There were significant variances in the Capital Projects Fund and the Performance Contract Fund between the final budget and actual amounts. The Capital Projects Fund was budgeted to make the principal and interest payment related to the QZAB bond; however it was properly recorded in the Debt Service Fund. The Performance Contract Fund was not created until after June 15, 2009, when the budget was amended so there was no budget in place.
- There was a proration of \$372 per pupil that was deducted out of the district's July state aid payment. It was replaced with Stimulus Funds.

Overview of the Financial Statements

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

- The first type, *District-Wide Financial Statements (Government-Wide Financial Statements)*, consist of two statements: Statement of Net Assets and Statement of Activities. These provide both short-term and long-term information about the district's overall financial status.
- The second type, *Fund Financial Statements*, focus on individual parts of the district. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the district's operations in more detail than the District-Wide Statements by providing information about the District's most significant fund – the General, with all other funds presented in one column as non-major funds.
- The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

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

District-Wide Financial Statements

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

Net Assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, **increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively** (see charted titled Net Assets 2005 – 2009). The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional non-financial factors such as the quality of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

- In the District-Wide Financial Statements, the Statement of Activities is divided into two categories: Governmental activities: The District’s basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid and grants finance these activities.
- Business-type activities: The District does not have any activities reported as business-type activities.

Fund Financial Statements

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

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

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

Financial Analysis of the District as a Whole

The condensed Statement of Net Assets as of June 30, 2009 and 2008 is as follows:

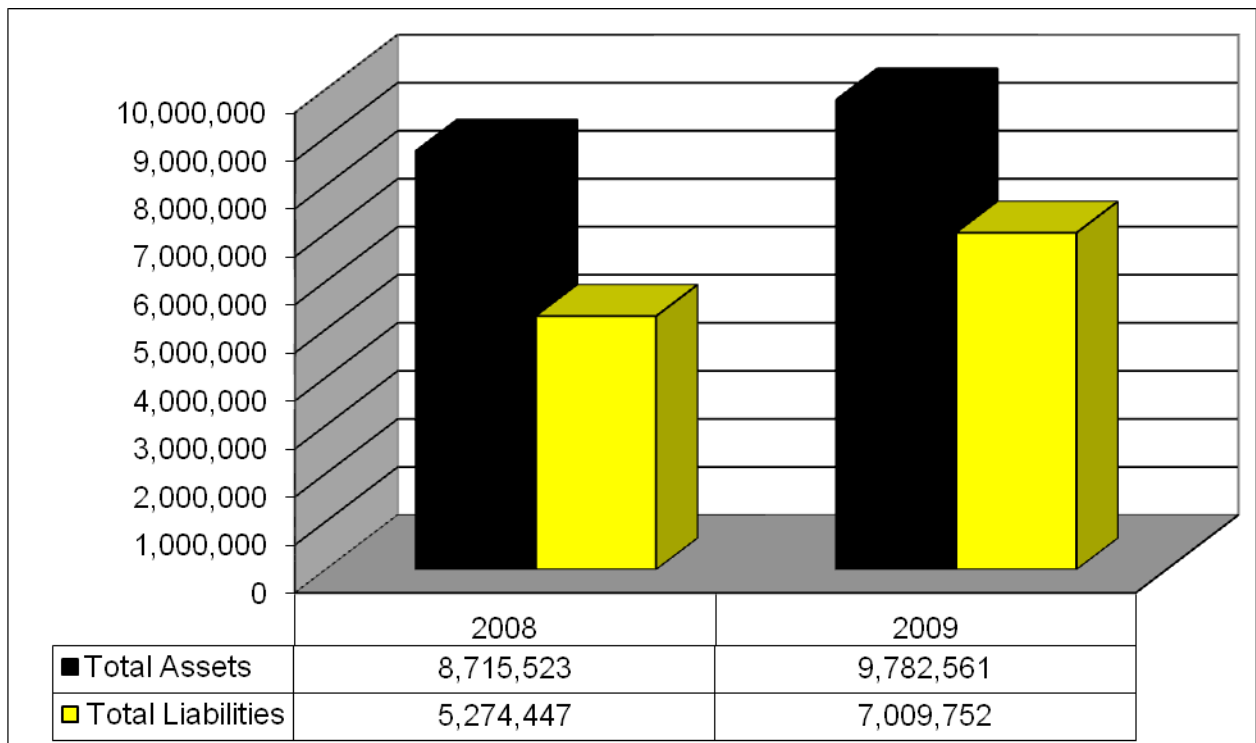
	Governmental Activities	
	2009	2008
Current Assets	\$5,935,827	\$6,294,236
Non-current assets	62,852	-
Capital Assets, net	3,783,882	2,421,287
Total Assets	9,782,561	8,715,523

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Current liabilities		\$3,063,894	\$2,909,052
Non-current liabilities		3,945,858	2,365,395
	Total Liabilities	<u>7,009,752</u>	<u>5,274,447</u>
Investment in Capital Assets, Net of Related Debt		401,371	421,287
Restricted for:			
Capital Projects		1,078,607	1,325,998
Other		26,612	353
Unrestricted		<u>1,266,219</u>	<u>1,693,438</u>
	Total Net Assets	<u>\$2,772,809</u>	<u>\$3,441,076</u>

The District's net assets were \$2,772,809 at June 30, 2009. This is broken down into three categories. 1) Capital assets, net of related debt: this category totaled \$401,371 and consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowing that is attributable to the acquisition. 2) Restricted: Capital Projects and the Food Service Fund had restricted net assets in the amounts of \$1,078,607 and \$26,612, respectively. 3) Unrestricted: the remaining amount of net assets of \$1,266,219 is unrestricted. These all represent the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unreserved net assets from year to year.

Assets and Liabilities 2008 vs. 2009 – Statement of Net Assets



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The results of this year's operation for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net assets for fiscal year 2009.

The condensed Statement of Activities for the fiscal year ended June 30, 2009 and 2008 is as follows:

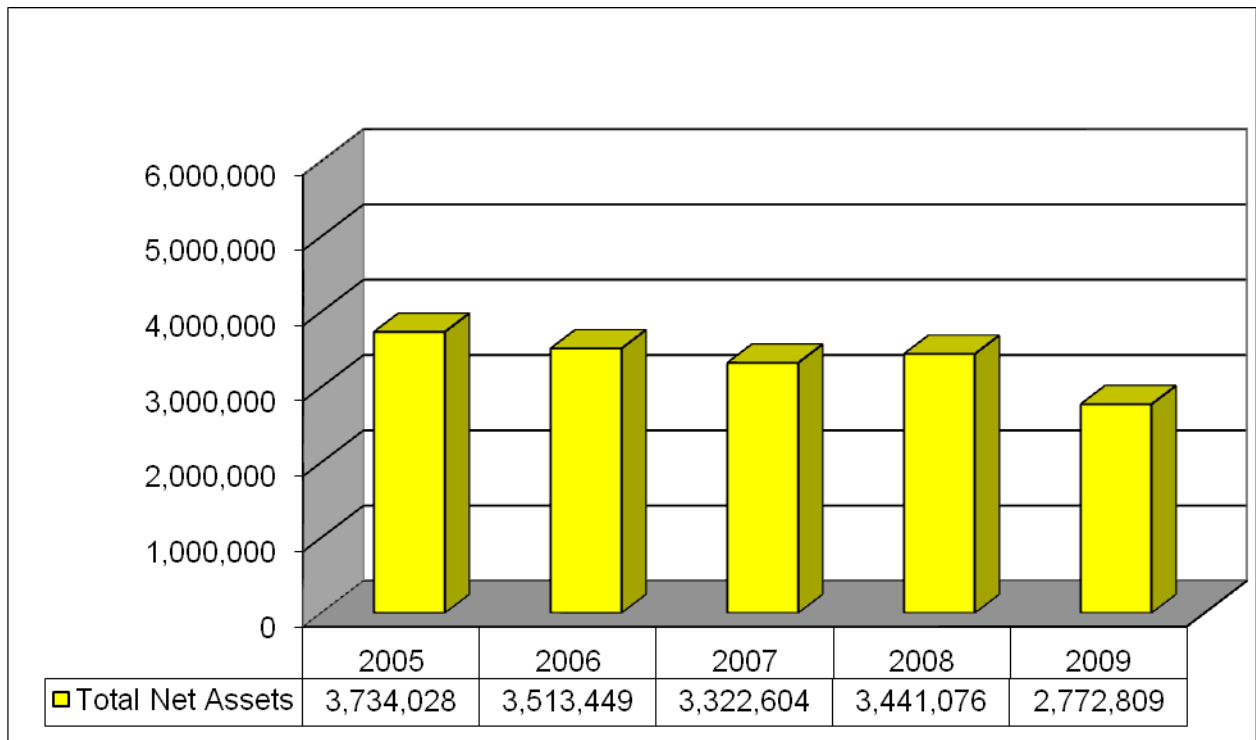
	Governmental Activities	
	2009	2008
Revenues:		
Program revenues:		
Charges for Services	\$ 263,969	\$ 278,945
Operating Grants and Contributions	3,448,003	2,655,933
General Revenues		
Property taxes, levied for general purposes	1,575,345	1,601,006
State of Michigan aid, unrestricted	7,501,353	8,196,407
Interest and investment earnings	35,344	99,295
Other	47,967	53,660
Total Revenues	\$12,871,981	\$12,885,246
Program Expenses:		
Instruction and instructional support	\$ 8,256,535	\$ 7,004,336
Support Services	3,998,922	4,568,535
Food Services	541,434	575,113
Athletics	276,639	271,162
Capital projects (un capitalized)		
Community services	94,245	84,463
Interest on retirement of debt	51,877	-
Other	28,408	16,852
Depreciation (unallocated)	292,188	246,313
Total Expenses	\$13,540,248	\$12,766,774
Change in Net Assets	(668,267)	118,472
Beginning Net Assets	\$ 3,441,076	\$ 3,322,604
Ending Net Assets	\$ 2,772,809	\$ 3,441,076

As reported in the Statement of Activities, the cost of all our governmental activities this year was \$13,540,248. Certain activities were partially funded from those who benefited from the programs \$263,969 or by other governments and organizations that subsidized certain programs with grants and categoricals \$3,448,003. We paid for the remaining "public benefit" portion of our governmental activities with \$7,501,353 in State Foundation Allowance, \$1,575,345 in taxes, and other revenues/sources, such as interest, general entitlements and fund balance.

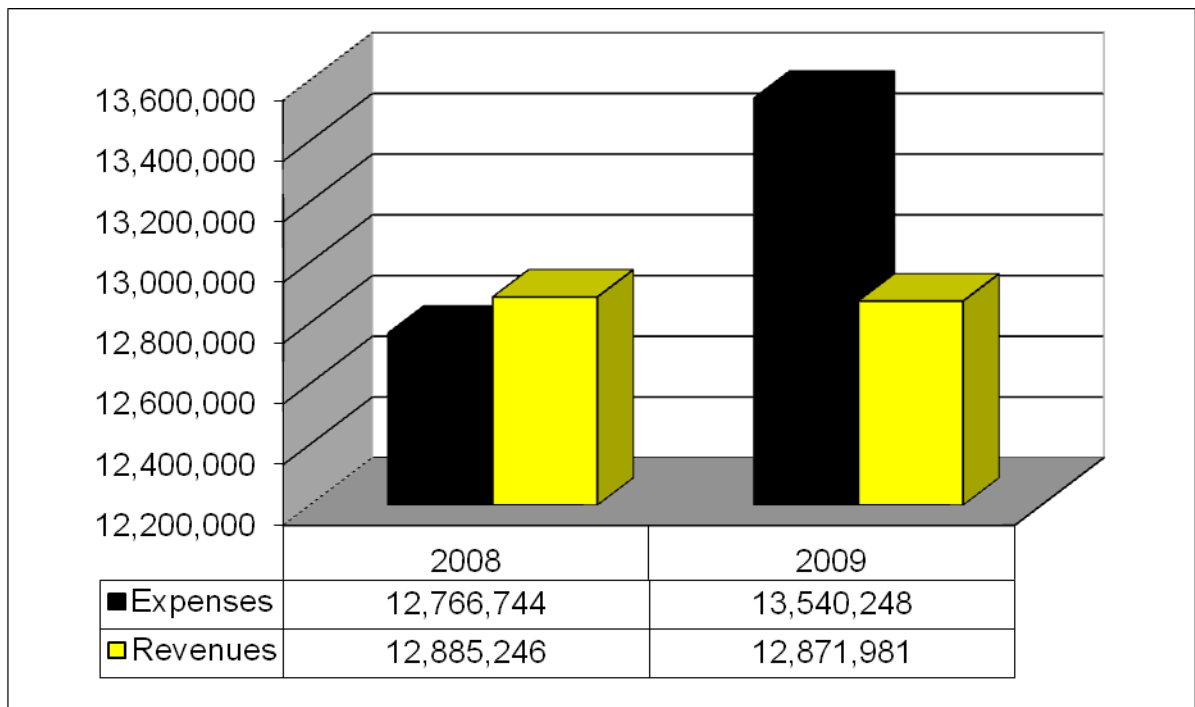
The District experienced a decrease in net assets for the year of \$668,267. Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of (\$194,944)
- Depreciation charged to expense in the amount of (\$292,188)
- Purchase of capital assets in the amount of \$1,654,783
- Performance Contract Bonds in the amount of (\$1,505,000) and related bond issue costs of \$62,852 and bond premium of (\$21,051)
- Voluntary Severance Plan adoption in the amount of (\$520,000)
- Compensated absences not reported as expenditures in the amount of \$5,696
- Repayment of bond principal of \$141,585

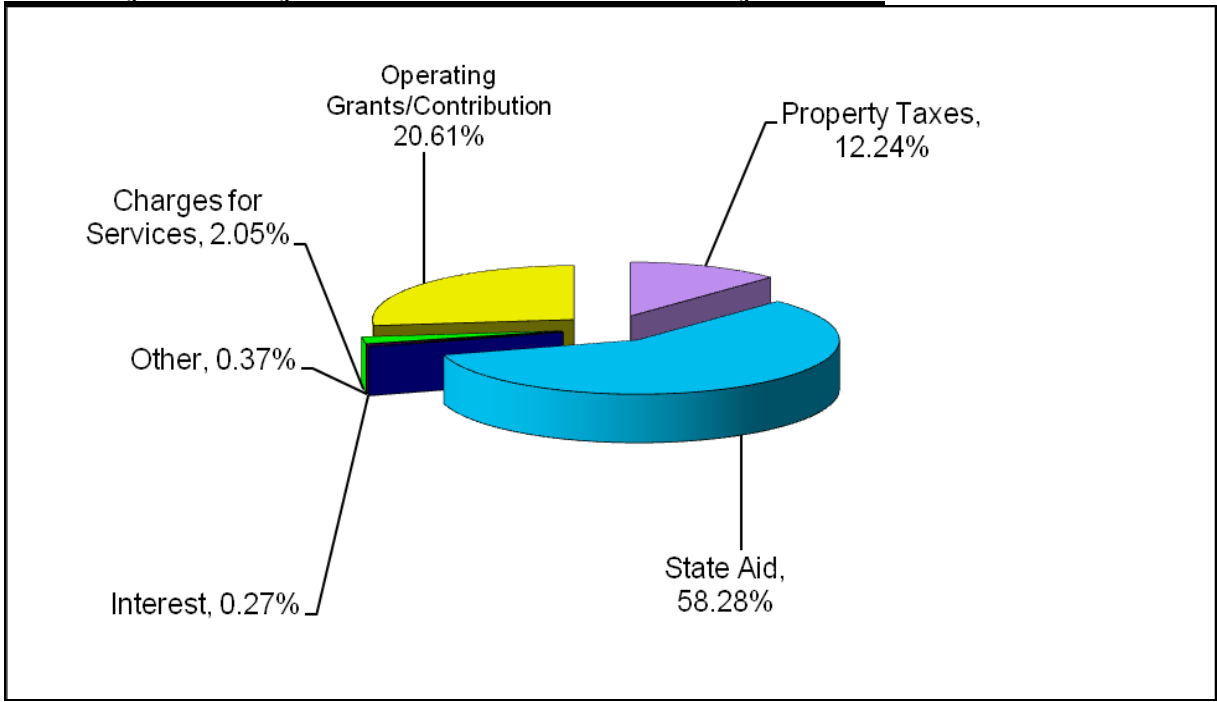
Net Assets 2005 – 2009



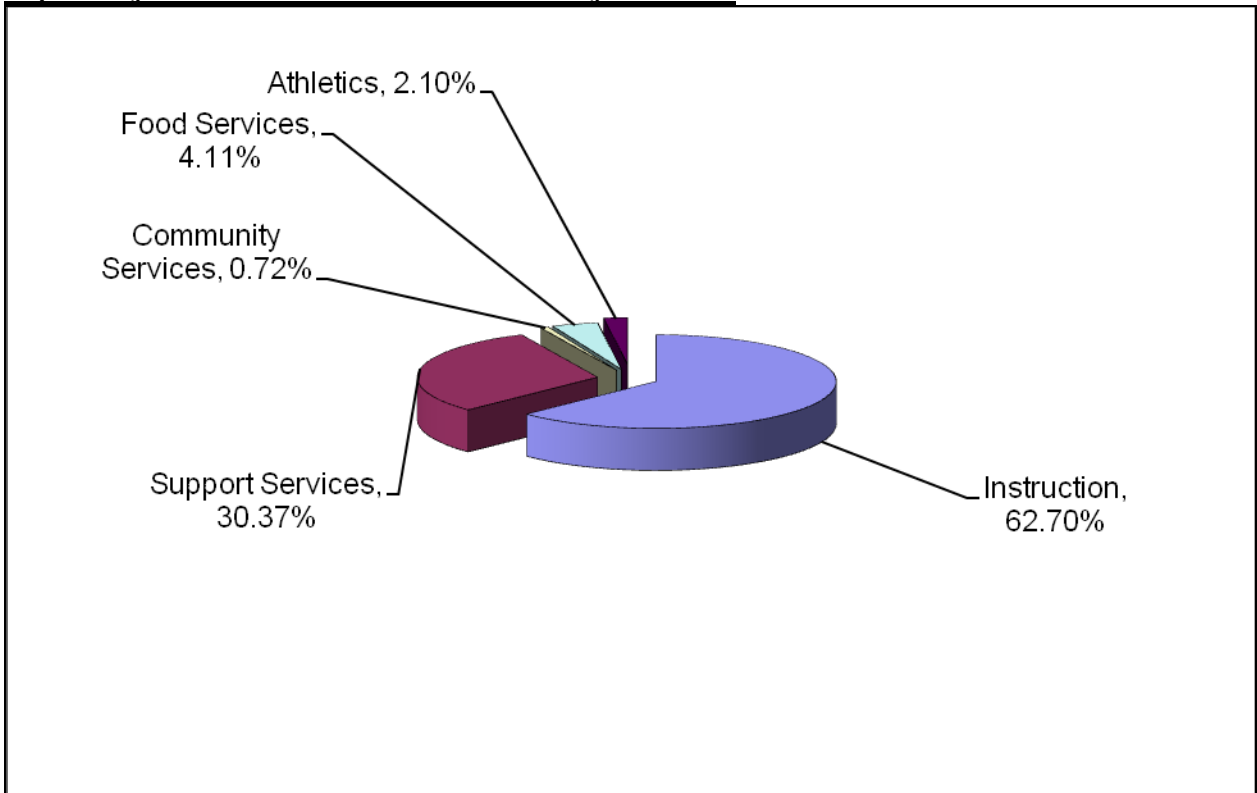
Revenues and Expenses 2008 vs. 2009 – Statement of Activities



Sources of Revenues for Fiscal Year 2009 – Statement of Activities



Expenses for Fiscal Year 2009 – Statement of Activities



MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The following table presents the cost of each of the District’s largest activities as well as each program’s net cost (total cost less revenues generated by the activities). Total costs were \$13,540,248; however, the following table excludes \$372,473 of costs related to depreciation \$292,188, a miscellaneous category \$28,408, and interest on retirement of debt \$51,877.

<i>Governmental Activities</i>	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$8,256,535	\$7,004,336	\$5,334,948	\$4,812,901
Support Services	3,998,922	4,568,535	3,971,151	4,466,173
Food Services	541,434	575,113	(58,155)	(3,870)
Athletics	276,639	271,162	207,015	209,064
Community Services	94,245	84,463	844	84,463
Totals	\$13,167,775	\$12,503,609	\$9,455,803	\$9,568,731

The net cost shows the financial burden that each function placed on the District’s operations, taxpayers and State. Since property taxes for operations and unrestricted State Aid constitutes 12% and 58%, respectively, of the District’s operating revenue sources (as shown in the pie chart), the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with the State-prescribed available financial resources.

Financial Analysis of the District’s Funds

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

As the District completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$3,331,825, a decrease of \$194,944 from the beginning of the year. The change in the combined fund balance was due to the increase of fund balance in the General Fund, the creation of the Performance Contract fund with projects left to be completed as of June 30, 2009 and a decrease of \$1,150,479 in reserve fund balance in the Capital Projects Funds. The decision to reserve the Capital Projects fund balance and carry it over to the 2008-2009 school year was so that it could fund the first QZAB debt service payment and to finish the projects that had begun in 07-08.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve the original budget for the upcoming fiscal year prior to the start of its fiscal year, which is July 1. Over the course of the year, the District’s Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For fiscal year 2009, the budget was amended in February 2009 and again in June 2009. A schedule showing the District’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

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

- Used the 3-year average of student count due to declining enrollment of 1367 in the original budget and 1358 in the final.
- The original budget assumed per pupil funding of \$7,346 per student and the final budget was adjusted to \$7,316.
- Updated all grant allocations and expenditures
- Increased special education payments from MARESA due to program changes the previous year
- Increased indirect cost transfer from the Food Service Fund

Capital Asset and Debt Administration

Capital Assets

At June 30, 2009 and 2008, the District had and \$3,783,882 and \$2,421,287, respectively invested in a variety of capital assets including land, buildings, and machinery and equipment.

	Governmental Activities	
	2009	2008
<i>Capital Assets at Year-End</i>		
Land	\$ 37,293	\$ 37,293
Construction in progress	560,554	224,106
Building & grounds	2,634,423	1,786,769
Site improvements	63,897	-
Machinery & equipment	217,482	131,545
Vehicles	270,233	241,574
Totals	<u>\$3,783,882</u>	<u>\$2,421,287</u>

This year's addition of \$1,878,889 included construction in progress related to the performance contract energy savings project, completion of upgrades at the high school (QZAB project), purchase of a bus and driver's education car and a scoreboard. The district sold energy bonds in the amount of 1,505,000 and proceeds were received in June of 2009. We present more detailed information about our capital assets in the notes (Note H)

At June 30, 2009 and 2008, the School District had \$3,566,022 and \$2,202,607, respectively, in the School Improvement Bond, Series 1998, Performance Contract Bonds and Qualified Zone Academy Bonds.

	Governmental Activities	
	2009	2008
<i>Outstanding Debt at Year-End</i>		
School Improvement Bonds	\$ 183,511	\$ 202,607
Performance Contract Bonds	1,505,000	-
Qualified Zone Academy Bonds	1,877,511	2,000,000
Totals	<u>\$ 3,566,022</u>	<u>\$ 2,202,607</u>

We present more detailed information about our long-term debt in the notes (note F) to the financial statements.

Factors Bearing on the District’s Future

Our elected officials and administration consider many factors when setting the District’s fiscal year 2009 budget. One of the most important factors affecting the budget is our student count. Generally, State Aid is determined by multiplying the blended student count by the foundation allowance per pupil.

February Count 2009	25%			
September Count 2009	75%			
	Blended			
	Count	X	Foundation Allowance =	State Aid

However, since the district is located in a rural area (less than 4.5 pupils per square miles) is small (less than 1,550 pupils) and enrollment is declining, we were able to use our 3-year average of our blended counts. This includes the current year blend plus the two immediately preceding years blend. This allows the district to received state aid on an increased student count.

February Count 2007	25%
September Count 2007	75%
	Blended Count 2007

February Count 2008	25%
September Count 2008	75%
	Blended Count 2008

February Count 2009	25%
September Count 2009	75%
	Blended Count 2009

Blended Count 2007 + 2008 + 2009 divided by 3 = Average Blended Count

As required by law the 2010 fiscal year budget was adopted in June 2009. The board and district officials began working to balance the 2010 budget in January of 2009. Initial projections showed a deficit of over \$900,000. With great effort that deficit was reduced to just over \$118,000. Revenues were based on an estimate that 1,297 students will be enrolled in September 2009 and no increase in foundation allowance was assumed. **75% of the District’s General Fund revenues were based solely on an estimate at the time of adoption** (student enrollment and foundation allowance).

As of this writing, it is certain that Stimulus Funds will be needed again to supplement the School Aid Fund and there will be a proration to the foundation allowance. Just recently the Senate passed a reduction in state aid of \$240.00 per pupil. Since the Legislature has yet to finalize the budget it is unknown how great the impact their decisions will make.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Since the state routinely determines the amount of foundation allowance in an untimely manner, the revenue estimates do not become facts until the end of the 4th month of operations when an official pupil count is taken and verified. Under State law, the District cannot assess additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability or lack thereof to fund local school operation.

Declining enrollment is an issue that continues to be of concern. The district normally experiences unstable enrollment patterns so we have not been able to depend on the results an enrollment study. However, over the past three years the forecast was very close to the actual September count. The enrollment forecast is for a continuation in decline. By school year 2012-2013 enrollment is projected to be less than 1,200 students.

There were no employment contracts to settle during the 08-09 school year. Because the GESPA and Teamster unions agreed to freeze their wages for the 09-10 year, in an effort to help reduce the deficit, those contracts will be negotiated at the end of the year. The administrator and teacher contract will be negotiated at the end of the 09-10 year. Even though the administrator contract was not up for negotiation they also agreed to take a freeze in salary for the 09-10 year to help reduce the deficit. The teacher's union is the only group that will receive an increase in salary during the 09-10 school year.

A financially sound district is one that routinely balances its budget and does not have to borrow to pay normal reoccurring bills. This year it was necessary to borrow \$ 300,000 from the MMBA to bridge the cash flow gap, primarily due to the timing in state aid payments. This is \$700,000 less than last year (08-09). The loan is scheduled to be paid in full in August of 2010.

The Board of Education is continuing to address its infrastructure needs by passing a bond referendum in August 2009 for .53 mills. Unused pool and locker room space will be renovated at the high school into classrooms for middle school students. Middle school students should be moved into their new space by fall of 2010 and the current middle school building will be closed. By reducing the number of buildings it is expected to save the district approximately \$150,000 in operating costs per year.

Contacting the District's Financial Management

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

GWINN AREA COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2009

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 122,453
Investments	3,730,622
Receivables:	
Accounts receivable	51,478
Due from other governmental units	1,987,005
Inventories	18,181
Prepaid expense	<u>26,088</u>
TOTAL CURRENT ASSETS	<u>5,935,827</u>
Non-current assets:	
Unamortized bond issuance costs	62,852
Land	37,293
Construction in progress	560,554
Capital assets	10,025,886
Less accumulated depreciation	<u>(6,839,851)</u>
TOTAL NON-CURRENT ASSETS	<u>3,846,734</u>
TOTAL ASSETS	<u>9,782,561</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	453,316
Due to other governmental units	155,627
Accrued liabilities	908,164
Compensated absences payable	65,334
Deferred revenue	21,561
State anticipation note payable	1,000,000
Current portion of long term debt obligations	<u>459,892</u>
TOTAL CURRENT LIABILITIES	<u>3,063,894</u>
Non-current liabilities:	
Unamortized bond premium	21,051
Non-current portion of employee benefit obligations	298,677
Non-current portion of voluntary severance plan	346,667
Non-current portion of long term debt obligations	<u>3,279,463</u>
TOTAL NON-CURRENT LIABILITIES	<u>3,945,858</u>
TOTAL LIABILITIES	<u>7,009,752</u>
NET ASSETS:	
Invested in capital assets net of related debt	401,371
Restricted for:	
Capital Projects	1,078,607
Other	26,612
Unrestricted	<u>1,266,219</u>
TOTAL NET ASSETS	<u>\$ 2,772,809</u>

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

GWINN AREA COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2009

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$ 8,256,535	\$ 731	\$ 2,920,856	\$ (5,334,948)
Supporting services	3,998,922	13,180	14,591	(3,971,151)
Community services	94,245	22,775	70,626	(844)
Food service activities	541,434	165,059	434,530	58,155
Athletic activities	276,639	62,224	7,400	(207,015)
Other	28,408	-	-	(28,408)
Interest on retirement of debt	51,877	-	-	(51,877)
Depreciation - unallocated	292,188	-	-	(292,188)
TOTAL GOVERNMENTAL ACTIVITIES	<u>13,540,248</u>	<u>263,969</u>	<u>3,448,003</u>	<u>(9,828,276)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,575,345
State aid not restricted to specific purposes				7,501,353
Interest and investment earnings				35,344
Miscellaneous				47,967
TOTAL GENERAL REVENUE AND TRANSFERS				<u>9,160,009</u>
				CHANGES IN NET ASSETS (668,267)
Net Assets , July 1				<u>3,441,076</u>
				NET ASSETS, JUNE 30 \$ <u><u>2,772,809</u></u>

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

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Balance Sheet

June 30, 2009

	<u>General Fund</u>	<u>Performance Contract Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
ASSETS:				
Cash and cash equivalents	\$ 121,921	\$ -	\$ 532	\$ 122,453
Investments	2,384,995	1,332,329	13,298	3,730,622
Receivables:				
Accounts receivable	42,022	-	9,456	51,478
Due from other funds	4,165	-	175,519	179,684
Due from other governmental units	1,987,005	-	-	1,987,005
Inventories	13,622	-	4,559	18,181
Other	26,088	-	-	26,088
	<u>26,088</u>	<u>-</u>	<u>-</u>	<u>26,088</u>
TOTAL ASSETS	<u><u>\$ 4,579,818</u></u>	<u><u>\$ 1,332,329</u></u>	<u><u>\$ 203,364</u></u>	<u><u>\$ 6,115,511</u></u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 27,007	\$ 425,076	\$ 1,233	\$ 453,316
Accrued liabilities	908,164	-	-	908,164
Compensated absences payable	65,334	-	-	65,334
Due to other funds	175,519	4,165	-	179,684
Due to other governmental units	155,627	-	-	155,627
State aid note payable	1,000,000	-	-	1,000,000
Deferred revenue	21,561	-	-	21,561
	<u>21,561</u>	<u>-</u>	<u>-</u>	<u>21,561</u>
TOTAL LIABILITIES	<u>2,353,212</u>	<u>429,241</u>	<u>1,233</u>	<u>2,783,686</u>
FUND BALANCES:				
Reserved for:				
School service activities	-	-	26,612	26,612
Capital projects	-	903,088	175,519	1,078,607
Retirement of debt	-	-	-	-
Unreserved:				
Undesignated	2,226,606	-	-	2,226,606
	<u>2,226,606</u>	<u>-</u>	<u>-</u>	<u>2,226,606</u>
TOTAL FUND BALANCES	<u>2,226,606</u>	<u>903,088</u>	<u>202,131</u>	<u>3,331,825</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 4,579,818</u></u>	<u><u>\$ 1,332,329</u></u>	<u><u>\$ 203,364</u></u>	<u><u>\$ 6,115,511</u></u>

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

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

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

June 30, 2009

Total Fund Balances for Governmental Funds \$ 3,331,825

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

	Cost of capital assets	\$ 10,623,733	
	Accumulated depreciation	<u>(6,839,851)</u>	
			3,783,882

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current	286,559		
Bonds payable - long term	3,279,463		
Employee benefits payable	298,677		
Voluntary Severance Plan payable	<u>520,000</u>		(4,384,699)

Unamortized bond issue costs are not financial resources and therefore are not reported in the funds 62,852

Unamortized bond premiums are not financial resources and therefore are not reported in the funds (21,051)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 2,772,809**

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

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2009

	<u>General Fund</u>	<u>Performance Contract Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
REVENUES:				
Local sources	\$ 1,663,757	\$ 443	\$ 235,625	\$ 1,899,825
State Aid	8,603,237	-	66,068	8,669,305
Federal sources	1,146,946	-	392,175	1,539,121
Other	763,730	-	-	763,730
TOTAL REVENUES	<u>12,177,670</u>	<u>443</u>	<u>693,868</u>	<u>12,871,981</u>
EXPENDITURES:				
Current:				
Instruction	7,687,708	-	-	7,687,708
Supporting services	3,987,255	-	-	3,987,255
Community services	94,245	-	-	94,245
Other	15,551	-	-	15,551
Food service activities	-	-	540,835	540,835
Athletic activities	-	-	274,264	274,264
Capital Outlay	160,176	560,554	1,016,074	1,736,804
Debt Service:				
Principal	-	-	141,585	141,585
Interest	22,877	-	29,000	51,877
Bond Issuance Costs	-	62,852	-	62,852
TOTAL EXPENDITURES	<u>11,967,812</u>	<u>623,406</u>	<u>2,001,758</u>	<u>14,592,976</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>209,858</u>	<u>(622,963)</u>	<u>(1,307,890)</u>	<u>(1,720,995)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from borrowing	-	1,505,000	-	1,505,000
Payments for premium (discount)	-	21,051	-	21,051
Transfers in	53,306	-	383,465	436,771
Transfers out	(236,976)	-	(199,795)	(436,771)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(183,670)</u>	<u>1,526,051</u>	<u>183,670</u>	<u>1,526,051</u>
NET CHANGE IN FUND BALANCES	26,188	903,088	(1,124,220)	(194,944)
Fund Balance, July 1	<u>2,200,418</u>	<u>-</u>	<u>1,326,351</u>	<u>3,526,769</u>
FUND BALANCE, JUNE 30	<u>\$ 2,226,606</u>	<u>\$ 903,088</u>	<u>\$ 202,131</u>	<u>\$ 3,331,825</u>

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

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

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

For the Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (194,944)

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	\$	292,188	
Capital outlays net of retirements		<u>(1,654,783)</u>	1,362,595

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (1,505,000)

Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred; however, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities. 62,852

Unamortized bond premiums are reported as other financing sources in the governmental funds when incurred; however, for governmental activities those sources are shown in the statement of net assets and amortized over the life of the bond issuance as other sources in the statement of activities. (21,051)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 141,585

Some expense reported in the Statement of Activities, such as voluntary severance plan, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in voluntary severance plan		<u>520,000</u>	(520,000)
------------------------------------	--	----------------	-----------

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in sick and vacation leave		<u>(5,696)</u>	<u>5,696</u>
-----------------------------------	--	----------------	--------------

Change in Net Assets of Governmental Activities \$ (668,267)

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

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2009

	<u>Private Purpose Trust Fund</u>	<u>Student Activities</u>
ASSETS:		
Cash	\$ 4,828	\$ 132,573
Investments	<u>35,609</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 40,437</u></u>	<u><u>\$ 132,573</u></u>
LIABILITIES:		
Accounts payable	\$ -	\$ 2,085
Due to student groups	<u>-</u>	<u>130,488</u>
TOTAL LIABILITIES	<u>-</u>	<u><u>\$ 132,573</u></u>
NET ASSETS:		
Reserved for: Scholarships	<u>40,437</u>	
TOTAL NET ASSETS	<u><u>\$ 40,437</u></u>	

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

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2009

	<u>Private Purpose Trust Fund</u>
ADDITIONS:	
Interest	<u>\$ 2,416</u>
TOTAL ADDITIONS	<u>2,416</u>
DEDUCTIONS:	
Unrealized loss on investments	7,282
Scholarships awarded	2,300
Prior year adjustment	<u>19,063</u>
TOTAL DEDUCTIONS	<u>28,645</u>
CHANGE IN NET ASSETS	(26,229)
Net Assets, July 1	<u>66,666</u>
NET ASSETS, JUNE 30	<u><u>\$ 40,437</u></u>

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

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Fiduciary Net Assets - Student Activities

June 30, 2009

	<u>Student Activities</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 132,573</u>
TOTAL ASSETS	<u><u>\$ 132,573</u></u>
LIABILITIES:	
Accounts payable	\$ 2,085
Due to student groups	<u>130,488</u>
TOTAL LIABILITIES	<u><u>\$ 132,573</u></u>

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

GWINN AREA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

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

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

Basic Financial Statements – Government-Wide Financial Statements

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

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

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

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

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

Basic Financial Statements -- Fund Financial Statements:

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

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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

Governmental Funds

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

Performance Contract Fund – The Performance Contract Fund is used to account for financial resources of major capital expenditures, including equipment that are purchased through the use of funds received from the issuing of the Performance Contract Bonds.

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

Capital Projects Fund – The capital projects funds are used to account for financial resources of major capital expenditures, including equipment. The capital project funds for the Gwinn Area Community Schools are the Capital Projects Fund and the QZAB Fund.

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

Debt Service Funds – The debt service funds are used to account for debt service expenditures. The debt service funds for the Gwinn Area Community Schools are the Debt Service Fund and the Debt Service QZAB Fund.

Fiduciary Funds

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

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

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

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

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues

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

are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

Cash and Equivalents

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

Investments

Investments are carried at market value.

Receivables

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

Due From and To Other Funds

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

Inventory

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

Capital Assets

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

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

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

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

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

Long-Term Debt

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

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

Compensated Absences

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

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$21,561 in the General Fund for grant funding that has been received but is unearned.

Equity Classification

District-Wide Statements

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

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

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

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and

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

contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

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

Property Taxes

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

Expenses/Expenditures

District-Wide Statements

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

Fund Statements

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

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

Interfund Activity

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

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

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

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

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

- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

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

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2009, the District’s cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$122,453	\$137,401	\$259,854
Investments	3,730,622	35,609	3,766,231
	<u>\$3,853,075</u>	<u>\$173,010</u>	<u>\$4,026,085</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. State law does not require it but the District has a deposit policy for custodial credit risk. The carrying amounts of the School’s deposit with financial institutions were \$259,854 and the bank balance was \$443,038. The bank balance is categorized as follows.

Amount insured by the FDIC	\$250,000
Amount uncollateralized and uninsured	193,038
	<u>\$443,038</u>

Investments

As of June 30, 2009, the District had the following investments.

Investment Type	Fair Value	Maturities Maturities Less Than 1 Year
MILAF Funds	\$1,850,115	\$1,850,115
MLAF Funds	1,880,507	1,880,507
Wells Fargo Mutual Funds	27,402	27,402
Wells Fargo Preferred Stocks – no maturities	8,207	n/a
TOTAL INVESTMENTS	<u>\$3,766,231</u>	<u>\$3,758,024</u>

Interest Rate Risk

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

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Credit Risk

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

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

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments totaled \$1,987,005. Of that balance \$1,146,799 is due from the State of Michigan for State Aid.

NOTE D – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2009 is as follows:

	Governmental Activities
Accrued wages	\$644,683
MESSA payable	214,450
Accrued unemployment	17,254
Accrued interest	17,000
Withholding payable	14,777
	<u>\$908,164</u>

NOTE E – SHORT-TERM OBLIGATIONS:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposed due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
Short-term debt:				
State anticipation note, 2007-2008	\$1,555,200	\$-	\$1,555,200	\$-
State anticipation note, 2008-2009	-	1,000,000	-	1,000,000
TOTAL	<u>\$1,555,200</u>	<u>\$1,000,000</u>	<u>\$1,555,200</u>	<u>\$1,000,000</u>

In August 2009, the District borrowed \$300,000 at 1.40% annual interest rate on a state aid anticipation note through the Michigan Municipal Bond Authority. The note is collateralized by 2009-2010 state school aid revenues.

NOTE F – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2009, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
School Improvement Bonds – Series 1998	\$202,607	\$ -	\$19,096	\$183,511	\$117,600
2007 Energy Conservation and Building Improvement and Site Bonds	2,000,000	-	122,489	1,877,511	123,959
2009 Energy Conservation Improvement Bonds	-	1,505,000	-	1,505,000	45,000
Subtotal	<u>2,202,607</u>	<u>1,505,000</u>	<u>141,585</u>	<u>3,566,022</u>	<u>286,559</u>
Employee Benefits	307,593	56,418	-	364,011	65,334
2008/2009 Voluntary Severance Plan	-	520,000	-	520,000	173,333
Subtotal	<u>307,593</u>	<u>576,418</u>	<u>-</u>	<u>884,011</u>	<u>238,667</u>
TOTAL LONG-TERM DEBT	<u>\$2,510,200</u>	<u>\$2,081,418</u>	<u>\$141,585</u>	<u>\$4,450,033</u>	<u>\$525,226</u>

The annual debt service requirements for the School District’s debt (excluding compensated absences) for the years ending June 30, 2009 through June 30, 2023 are as follows:

BONDS PAYABLE

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

School Improvement Bonds			
June 30, 2009			
School Year	May 15		Total
	Interest	Principal	
2009-2010	\$44,297	\$117,600	\$161,897
2010-2011	3,138	20,958	24,096
2011-2012	2,140	21,954	24,094
2012-2013	1,095	22,999	24,094
Totals	<u>\$50,670</u>	<u>\$183,511</u>	<u>\$234,181</u>

The Energy Conservation and Building Improvement and Site Bonds, Series 2007 (\$2,000,000) dated December 6, 2007 mature annually on December 6th, with interest at a rate of 1.20% per annum. The primary revenue source for making the debt service payment on these Building Improvement Bonds is property taxes, which are levied within the authorized constitutional and statutory tax limitations.

2007 Energy Conservation and Building Improvement and Site Bonds			
June 30, 2009			
School Year	May 6		Total
	Interest	Principal	
2009-2010	\$22,530	\$123,959	\$146,489
2010-2011	21,043	125,447	146,490
2011-2012	19,537	126,952	146,489
2012-2013	18,014	128,476	146,490
2013-2018	66,570	665,875	732,445
2018-2023	25,647	706,802	732,449
Totals	<u>\$173,341</u>	<u>\$1,877,511</u>	<u>\$2,050,852</u>

NOTE F – LONG-TERM OBLIGATIONS (Continued):

The Energy Conservation and Building Improvement and Site Bonds, Series 2009 (\$1,505,000) dated June 11, 2009 mature annually on May 1st, with interest at a rate varying from 2.500% to 4.000% per annum. The primary revenue source for making the debt service payment on these Building Improvement Bonds will come from the savings the District will realize due to decreased energy consumption. The project was a performance contract whereby the performance (reduced energy consumption) is guaranteed. If the savings are not realized by the District, the company who performed the contract, Technical Energy Performance Group, will make the debt service payment, or a portion thereof.

**2009 Energy Conservation and Building Improvement and Site Bonds
June 30, 2009**

School Year	November 1	May 1		Total
	Interest	Interest	Principal	
2009-2010	\$-	\$49,633	\$45,000	\$94,633
2010-2011	27,356	27,356	85,000	139,712
2011-2012	26,081	26,081	95,000	147,162
2012-2013	24,656	24,656	105,000	154,312
2013-2014	22,950	22,950	120,000	165,900
2014-2019	77,563	77,563	725,000	880,126
2019-2021	10,000	10,000	330,000	350,000
Totals	\$188,606	\$238,239	\$1,505,000	\$1,931,845

As of June 30, 2009 the aggregate maturities of long-term debt are as follows:

School Year	Interest	Principal	Total
2009-2010	\$116,460	\$286,559	\$403,019
2010-2011	78,893	231,405	310,298
2011-2012	73,839	243,906	317,745
2012-2013	68,421	256,475	324,896
2013-2014	62,372	250,017	312,389
2014-2019	213,706	1,398,866	1,612,572
2019-2023	37,165	898,794	935,959
	\$650,856	\$3,566,022	4,216,878
		Employee Benefits Payable	364,011
		2008/2009 Voluntary Severance Plan	520,000
			884,011
		TOTALS	\$5,100,889

NOTE G – EMPLOYEE BENEFITS:

COMPENSATED ABSENCES

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. Teachers meeting the requirements for retirement are paid \$72 per day up to 120 days of unused accumulated sick leave. Other non-teaching employees are paid for sick leave based on their appropriate contract.

NOTE G – EMPLOYEE BENEFITS (Continued):

As of June 30, 2009 composition of the liability for employee benefits as reported in the statement of net assets is as follows:

Paid time off – Teamsters	\$88,247
Sick leave – Central office	33,869
Sick leave - Principals	18,650
Sick leave - Teachers	199,392
Personal leave - Principals	1,550
Vacation – Central office	22,303
	<u>\$364,011</u>

The liability has been recognized as follows:

Current portion	\$65,334
Long-term portion	298,677
	<u>\$364,011</u>

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

VOLUNTARY SEVERANCE PLAN

On April 6, 2009, the Board of Education of the Gwinn Area Community Schools and the Gwinn Education Association adopted the 2008/2009 Voluntary Severance Plan (“VSP” or “Plan”). The aggregate benefit to be remitted to the eligible teachers participating in the VSP was to be \$40,000 if 8 or more teachers participated in the Plan. A total of 13 teachers elected to participate in the VSP plan. The Board is to make three (3) equal contributions to a non-elective Valic 403(b) tax deferred annuity on July 1st of each calendar year beginning 2009. In addition, the value of all accumulated sick days was paid to the retiring teachers on July 1, 2009, which amounted to \$65,334.

NOTE H – CAPITAL ASSETS:

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

	Balance 7/01/08	Additions/ Adjustments	Deductions	Balance 6/30/09
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$37,293	\$ -	\$ -	\$37,293
Construction in progress	224,106	560,554	(224,106)	560,554
Capital assets being depreciated:				
Site improvements	342,300	66,100	-	408,400
Buildings and improvements	6,592,999	1,023,016	-	7,616,015
Equipment	669,072	135,233	(5,000)	799,305
Vehicles and buses	1,236,827	93,986	(128,647)	1,202,166
Total Capital Assets	<u>9,102,597</u>	<u>1,878,889</u>	<u>(357,753)</u>	<u>10,623,733</u>
Less accumulated depreciation:				
Site improvements	(342,300)	(2,203)	-	(344,503)
Buildings and improvements	(4,806,230)	(175,362)	-	(4,981,592)
Equipment	(537,527)	(49,296)	5,000	(581,823)
Vehicle and buses	(995,253)	(65,327)	128,647	(931,933)
Total Accumulated Depreciation	<u>(6,681,310)</u>	<u>(292,188)</u>	<u>133,647</u>	<u>(6,839,851)</u>
Governmental Activities Capital Assets, Net	<u>\$2,421,287</u>	<u>\$1,586,701</u>	<u>\$(224,106)</u>	<u>\$3,783,882</u>

NOTE H – CAPITAL ASSETS (Continued):

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	\$292,188
Total Governmental Activities Depreciation Expense	<u>\$292,188</u>

NOTE I – RESERVED AND DESIGNATED FUND BALANCE:

The School District reserves fund equities for the following funds:

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

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

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

NOTE J – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2009, the foundation allowance was based on the three-year average of the blended pupil membership counts taken in February and September.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2008 - August 2009.

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

NOTE K – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

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

NOTE K – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued):

The amounts of interfund receivables and payables as of June 30, 2009 are as follows:

		DUE FROM OTHER FUNDS				Total Due To Other Funds
		General Fund	Athletic Fund	Capital Projects Fund	QZAB Fund	
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$79,735	\$95,784	\$175,519
	Performance Contract	4,165	-	-	-	4,165
	Student Activities	554	801	-	-	1,355
	Total Due From Other Funds	\$4,719	\$801	\$79,735	\$95,784	\$181,039

All internal 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 system, and (3) payments between funds are made.

The amounts transferred to and from individual funds for the year ended June 30, 2009 are as follows:

		TRANSFERS OUT				Total Transfers In
		General Fund	Athletic Fund	Lunch Fund	Capital Project Fund	
TRANSFERS IN	General Fund	\$-	\$15,091	\$38,215	\$-	\$53,306
	Lunch Fund	6,060	-	-	-	6,060
	Athletic Fund	230,916	-	-	-	230,916
	Debt Service QZAB Fund	-	-	-	146,89	146,489
	Total Transfers Out	\$236,976	\$15,091	\$38,215	\$146,489	\$436,771

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

NOTE L – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$29,472 during fiscal 2008-09 in revenues and expenditures for USDA commodities.

NOTE M – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2008 totaled \$239,526,257 (\$128,252,951 designated as Homestead, \$96,632,406 designated as Non-Homestead, and \$14,640,900 designated as Commercial personal property). The total tax levy consists of 18.000 mills on all non-homestead property and 6.000 mills on all commercial personal property for the General Fund.

NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description

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

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

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

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

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

Pension Benefits

The District was required by state statute to contribute 16.72% of covered compensation to the Plan through September 30, 2008 and 16.54% of covered compensation for the remainder of the year. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The total amount contributed to the Plan for the year ended June 30, 2009 was \$1,276,072 which consisted of \$1,065,787 from the School District and \$210,285 from employees electing the MIP option. These represent approximately 15.74% and 3.11% of total payroll, respectively. The School District's required and actual contributions to MPSERS for 2009, 2008 and 2007 were \$1,065,787; \$1,070,747; and \$1,161,668, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2009 was approximately \$6,450,000. The School District's total payroll was approximately \$6,771,000.

Post Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81 percent for the period from October 1, 2008 through June 30, 2009. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P. O. Box 30171, Lansing, Michigan, 48909.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

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

Risk Management

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

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

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

NOTE P – ECONOMIC DEPENDENCY:

The School District received approximately 79 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Gwinn. The District's Foundation Allowance is set by the state and includes the local contribution from Non-Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

NOTE Q – CONSTRUCTION IN PROGRESS:

The proceeds from the sale of the Energy Conservation Improvement Bonds, Series 2009 are for the purposes of constructing facility improvements that would pay for themselves through energy savings.

As of June 30, 2009 construction contracts totaling \$1,460,426 were entered into for the purposes stated in the preceding paragraph of which, \$560,554 has been completed.

REQUIRED SUPPLEMENTAL INFORMATION

GWINN AREA COMMUNITY SCHOOLS

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 1,622,357	\$ 1,849,096	\$ 1,663,757	\$ 226,739	\$ (185,339)
State sources	9,337,022	9,112,806	8,603,237	(224,216)	(509,569)
Federal sources	668,522	654,128	1,146,946	(14,394)	492,818
Other	498,088	568,575	763,730	70,487	195,155
TOTAL REVENUES	12,125,989	12,184,605	12,177,670	58,616	(6,935)
EXPENDITURES:					
Instruction:					
Basic Programs	5,515,282	5,694,878	5,667,573	(179,596)	27,305
Added Needs	2,013,443	2,034,265	2,020,135	(20,822)	14,130
Total Instruction	7,528,725	7,729,143	7,687,708	(200,418)	41,435
Supporting Services:					
Pupil services	472,238	458,208	457,216	14,030	992
Instructional staff	257,052	225,446	225,549	31,606	(103)
General administration	334,578	327,978	307,363	6,600	20,615
School administration	814,961	799,368	776,894	15,593	22,474
Fiscal services	241,538	180,228	180,250	61,310	(22)
Operation and maintenance	1,186,034	1,154,523	1,142,663	31,511	11,860
Transportation	850,855	689,456	679,824	161,399	9,632
Central	217,312	221,679	216,911	(4,367)	4,768
Other	625	625	585	-	40
Total Supporting Services	4,375,193	4,057,511	3,987,255	317,682	70,256
Community Services	86,581	96,665	94,245	(10,084)	2,420
Other	21,324	15,551	15,551	5,773	-
Capital Outlay	-	163,052	160,176	(163,052)	2,876
Debt Service - Interest	22,877	22,877	22,877	-	-
TOTAL EXPENDITURES	12,034,700	12,084,799	11,967,812	(50,099)	116,987
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	91,289	99,806	209,858	8,517	110,052
OTHER FINANCING SOURCES (USES):					
Transfers in	19,800	58,015	53,306	38,215	(4,709)
Transfers out	(263,146)	(248,492)	(236,976)	14,654	11,516
TOTAL OTHER FINANCING SOURCES (USES)	(243,346)	(190,477)	(183,670)	52,869	6,807
NET CHANGE IN FUND BALANCE	(152,057)	(90,671)	26,188	61,386	116,859
Fund Balance, July 1	2,200,418	2,200,418	2,200,418	-	-
FUND BALANCE, JUNE 30	\$ 2,048,361	\$ 2,109,747	\$ 2,226,606	\$ 61,386	\$ 116,859

GWINN AREA COMMUNITY SCHOOLS

Performance Contract Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ -	\$ -	\$ 443	\$ -	\$ 443
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>443</u>	<u>-</u>	<u>443</u>
EXPENDITURES:					
Capital Outlay	-	-	560,554	-	(560,554)
Debt Service - Bond Issuance Costs	-	-	62,852	-	(62,852)
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>623,406</u>	<u>-</u>	<u>(623,406)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(622,963)</u>	<u>-</u>	<u>(622,963)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	1,505,000	-	1,505,000
Payments for premium (discount)	-	-	21,051	-	21,051
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>1,526,051</u>	<u>-</u>	<u>1,526,051</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>903,088</u>	<u>-</u>	<u>903,088</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 903,088</u>	<u>\$ -</u>	<u>\$ 903,088</u>

SUPPLEMENTAL INFORMATION

GWINN AREA COMMUNITY SCHOOLS

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2009

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
ASSETS:				
Cash and cash equivalents	\$ 532	\$ -	\$ -	\$ 532
Investments	13,298	-	-	13,298
Accounts receivable	9,456	-	-	9,456
Due from other funds	-	-	175,519	175,519
Inventory	4,559	-	-	4,559
	<u>4,559</u>	<u>-</u>	<u>175,519</u>	<u>180,078</u>
TOTAL ASSETS	<u>\$ 27,845</u>	<u>\$ -</u>	<u>\$ 175,519</u>	<u>\$ 203,364</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 1,233	\$ -	\$ -	\$ 1,233
TOTAL LIABILITIES	<u>1,233</u>	<u>-</u>	<u>-</u>	<u>1,233</u>
FUND BALANCES:				
Reserved for:				
School service activities	26,612	-	-	26,612
Retirement of debt	-	-	-	-
Capital projects	-	-	175,519	175,519
	<u>26,612</u>	<u>-</u>	<u>175,519</u>	<u>202,131</u>
TOTAL FUND BALANCES	<u>26,612</u>	<u>-</u>	<u>175,519</u>	<u>202,131</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 27,845</u>	<u>\$ -</u>	<u>\$ 175,519</u>	<u>\$ 203,364</u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Governmental Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2009

	Special Revenue	Debt Service	Capital Projects	Total
REVENUES:				
School lunch activities	\$ 165,701	\$ -	\$ -	\$ 165,701
Athletic activities	69,924	-	-	69,924
State aid	41,972	24,096	-	66,068
Federal sources	392,175	-	-	392,175
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	669,772	24,096	-	693,868
EXPENDITURES:				
School lunch activities	540,835	-	-	540,835
Athletic activities	274,264	-	-	274,264
Capital Outlay	12,084	-	1,003,990	1,016,074
Debt service activities				
Principal	-	141,585	-	141,585
Interest and fees	-	29,000	-	29,000
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	827,183	170,585	1,003,990	2,001,758
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(157,411)	(146,489)	(1,003,990)	(1,307,890)
OTHER FINANCING SOURCES (USES):				
Transfers in	236,976	146,489	-	383,465
Transfers out	(53,306)	-	(146,489)	(199,795)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	183,670	146,489	(146,489)	183,670
NET CHANGE IN FUND BALANCE	26,259	-	(1,150,479)	(1,124,220)
Fund Balance, July 1	353	-	1,325,998	1,326,351
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCE, JUNE 30	\$ 26,612	\$ -	\$ 175,519	\$ 202,131

GWINN AREA COMMUNITY SCHOOLS

Non-Major Special Revenue Funds

Combining Balance Sheet

June 30, 2009

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 492	\$ 40	\$ 532
Investments	13,298	-	13,298
Accounts receivable	8,655	801	9,456
Inventory	<u>4,559</u>	<u>-</u>	<u>4,559</u>
TOTAL ASSETS	<u><u>\$ 27,004</u></u>	<u><u>\$ 841</u></u>	<u><u>\$ 27,845</u></u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	<u>\$ 392</u>	<u>\$ 841</u>	<u>\$ 1,233</u>
TOTAL LIABILITIES	<u>392</u>	<u>841</u>	<u>1,233</u>
FUND BALANCES:			
Reserved for school service activities	<u>26,612</u>	<u>-</u>	<u>26,612</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 27,004</u></u>	<u><u>\$ 841</u></u>	<u><u>\$ 27,845</u></u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Special Revenue Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2009

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
REVENUES:			
Athletic activities	\$ -	\$ 69,924	\$ 69,924
School lunch activities	165,701	-	165,701
State aid	41,972	-	41,972
Federal sources	392,175	-	392,175
	<u>599,848</u>	<u>69,924</u>	<u>669,772</u>
TOTAL REVENUES			
EXPENDITURES:			
School lunch activities	540,835	-	540,835
Athletic activities	-	274,264	274,264
Capital Outlay	599	11,485	12,084
	<u>541,434</u>	<u>285,749</u>	<u>827,183</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	58,414	(215,825)	(157,411)
OTHER FINANCING SOURCES (USES):			
Transfers in	6,060	230,916	236,976
Transfers out	(38,215)	(15,091)	(53,306)
	<u>(32,155)</u>	<u>215,825</u>	<u>183,670</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCE	26,259	-	26,259
Fund Balance, July 1	353	-	353
	<u>353</u>	<u>-</u>	<u>353</u>
FUND BALANCE, JUNE 30	<u>\$ 26,612</u>	<u>\$ -</u>	<u>\$ 26,612</u>

GWINN AREA COMMUNITY SCHOOLS

School Lunch Fund

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

For the Year Ended June 30, 2009

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	\$ 165,230	\$ 165,701	\$ 471
State aid	41,970	41,972	2
Federal sources	<u>371,376</u>	<u>392,175</u>	<u>20,799</u>
TOTAL REVENUES	<u>578,576</u>	<u>599,848</u>	<u>21,272</u>
EXPENDITURES:			
School lunch activities:			
Salaries and fringe benefits	288,689	288,854	(165)
Purchased services	9,458	7,278	2,180
Supplies and materials and other expenses	248,028	244,703	3,325
Capital Outlay	<u>599</u>	<u>599</u>	<u>-</u>
TOTAL EXPENDITURES	<u>546,774</u>	<u>541,434</u>	<u>5,340</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	31,802	58,414	26,612
OTHER FINANCING SOURCES (USES):			
Transfers in	6,060	6,060	-
Transfers out	<u>(38,215)</u>	<u>(38,215)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>(32,155)</u>	<u>(32,155)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(353)	26,259	26,612
Fund Balance, July 1	<u>353</u>	<u>353</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ 26,612</u></u>	<u><u>\$ 26,612</u></u>

GWINN AREA COMMUNITY SCHOOLS

Athletic Fund

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

For the Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Athletic activities	<u>\$ 66,644</u>	<u>\$ 69,924</u>	<u>\$ 3,280</u>
TOTAL REVENUES	<u>66,644</u>	<u>69,924</u>	<u>3,280</u>
EXPENDITURES:			
Athletic activities:			
Salaries and fringe benefits	177,125	176,297	828
Purchased services	79,375	78,266	1,109
Supplies and materials	21,291	19,701	1,590
Capital outlay	<u>11,485</u>	<u>11,485</u>	<u>-</u>
TOTAL EXPENDITURES	<u>289,276</u>	<u>285,749</u>	<u>3,527</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(222,632)	(215,825)	6,807
OTHER FINANCING SOURCES (USES):			
Transfers in	242,432	230,916	(11,516)
Transfers out	<u>(19,800)</u>	<u>(15,091)</u>	<u>4,709</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>222,632</u>	<u>215,825</u>	<u>(6,807)</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Debt Service Funds

Combining Balance Sheet

June 30, 2009

	Debt Service Fund	Debt Service QZAB Fund	Total
ASSETS:			
Cash and cash equivalents	\$ -	\$ -	\$ -
TOTAL ASSETS	\$ -	\$ -	\$ -
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Reserved for retirement of debt	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ -

GWINN AREA COMMUNITY SCHOOLS

Non-Major Debt Service Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2009

	Debt Service Fund	Debt Service QZAB Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
State Sources	\$ 24,096	\$ -	\$ 24,096
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	24,096	-	24,096
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES:			
Debt service activities:			
Principal	19,096	122,489	141,585
Interest and fiscal charges	5,000	24,000	29,000
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	24,096	146,489	170,585
	<u> </u>	<u> </u>	<u> </u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(146,489)	(146,489)
	<u> </u>	<u> </u>	<u> </u>
OTHER FINANCING SOURCES:			
Transfers in	-	146,489	146,489
	<u> </u>	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES	-	146,489	146,489
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCE	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Fund Balance, July 1	-	-	-
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, JUNE 30	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>

GWINN AREA COMMUNITY SCHOOLS

Debt Service Fund

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

For the Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
State Sources	<u>\$ -</u>	<u>\$ 24,096</u>	<u>\$ 24,096</u>
TOTAL REVENUES	<u>-</u>	<u>24,096</u>	<u>24,096</u>
EXPENDITURES:			
Debt service activities:			
Principal	-	19,096	(19,096)
Interest and fiscal charges	<u>-</u>	<u>5,000</u>	<u>(5,000)</u>
TOTAL EXPENDITURES	<u>-</u>	<u>24,096</u>	<u>(24,096)</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GWINN AREA COMMUNITY SCHOOLS

Debt Service QZAB Fund

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

For the Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Debt service activities:			
Principal	-	122,489	(122,489)
Interest and fiscal charges	<u>-</u>	<u>24,000</u>	<u>(24,000)</u>
TOTAL EXPENDITURES	<u>-</u>	<u>146,489</u>	<u>(146,489)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(146,489)	(146,489)
OTHER FINANCING SOURCES:			
Transfer in	<u>-</u>	<u>146,489</u>	<u>146,489</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>146,489</u>	<u>146,489</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Capital Projects Funds

Combining Balance Sheet

June 30, 2009

	<u>Capital Projects Fund</u>	<u>QZAB Fund</u>	<u>Total</u>
ASSETS:			
Due from other funds	\$ 79,735	\$ 95,784	\$ 175,519
TOTAL ASSETS	<u>\$ 79,735</u>	<u>\$ 95,784</u>	<u>\$ 175,519</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ -	\$ -	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:			
Reserved for capital projects	79,735	95,784	175,519
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 79,735</u>	<u>\$ 95,784</u>	<u>\$ 175,519</u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Capital Projects Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2009

	<u>Capital Projects Fund</u>	<u>QZAB Fund</u>	<u>Total</u>
REVENUES:			
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Capital Outlay	<u>42,498</u>	<u>961,492</u>	<u>1,003,990</u>
TOTAL EXPENDITURES	<u>42,498</u>	<u>961,492</u>	<u>1,003,990</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(42,498)	(961,492)	(1,003,990)
OTHER FINANCING (USES):			
Transfers out	<u>(146,489)</u>	<u>-</u>	<u>(146,489)</u>
TOTAL OTHER FINANCING (USES)	<u>(146,489)</u>	<u>-</u>	<u>(146,489)</u>
NET CHANGE IN FUND BALANCE	(188,987)	(961,492)	(1,150,479)
Fund Balance, July 1	<u>268,722</u>	<u>1,057,276</u>	<u>1,325,998</u>
FUND BALANCE, JUNE 30	<u><u>\$ 79,735</u></u>	<u><u>\$ 95,784</u></u>	<u><u>\$ 175,519</u></u>

GWINN AREA COMMUNITY SCHOOLS

Capital Projects Fund

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

For the Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Capital Outlay	<u>188,987</u>	<u>42,498</u>	<u>146,489</u>
TOTAL EXPENDITURES	<u>188,987</u>	<u>42,498</u>	<u>146,489</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(188,987)</u>	<u>(42,498)</u>	<u>146,489</u>
OTHER FINANCING (USES):			
Transfer out		<u>(146,489)</u>	<u>(146,489)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(146,489)</u>	<u>(146,489)</u>
NET CHANGE IN FUND BALANCE	<u>(188,987)</u>	<u>(188,987)</u>	<u>-</u>
Fund Balance, July 1	<u>268,722</u>	<u>268,722</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 79,735</u></u>	<u><u>\$ 79,735</u></u>	<u><u>\$ -</u></u>

GWINN AREA COMMUNITY SCHOOLS

Capital Projects - QZAB Fund

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

For the Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Capital Outlay	<u>961,492</u>	<u>961,492</u>	<u>-</u>
TOTAL EXPENDITURES	<u>961,492</u>	<u>961,492</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(961,492)</u>	<u>(961,492)</u>	<u>-</u>
Fund Balance, July 1	<u>1,057,276</u>	<u>1,057,276</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 95,784</u></u>	<u><u>\$ 95,784</u></u>	<u><u>\$ -</u></u>

COMPLIANCE SECTION



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

Board of Education
Gwinn Area Community Schools
Gwinn, MI 49841

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, as of and for the year ended June 30, 2009, which collectively comprise the Gwinn Area Community Schools' basic financial statements and have issued our report thereon dated September 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gwinn Area Community 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 the Gwinn Area Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gwinn Area Community Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gwinn Area Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gwinn Area Community Schools' financial statements that is more than inconsequential will not be prevented or detected by the Gwinn Area Community Schools' internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, items 09-01.

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

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, 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.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 28, 2009



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

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

Compliance

We have audited the compliance of Gwinn Area Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Gwinn Area Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Gwinn Area Community Schools' management. Our responsibility is to express an opinion on the Gwinn Area Community Schools' compliance based on our audit.

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

In our opinion, Gwinn Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies 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, 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.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 28, 2009

GWINN AREA COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2008	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2009
U.S. Department of Agriculture:							
Nutrition Cluster:							
Passed through MDE:							
National School Breakfast Program:							
Breakfast 1977 & 1978	10.553	\$ 84,230	\$ 80,621	\$ -	\$ 84,230	\$ 84,230	\$ -
Subtotal		<u>84,230</u>	<u>80,621</u>	<u>-</u>	<u>84,230</u>	<u>84,230</u>	<u>-</u>
National School Lunch Program:							
Section 4 -Total Serving 1957 & 1958	10.555	39,541	34,891	-	39,541	39,541	-
Section 11 - Free and Reduced 1967 & 1968	10.555	223,409	202,568	-	223,409	223,409	-
Non-cash Entitlement Commodities	10.555	26,529	34,293	-	26,529	26,529	-
Non-cash Bonus Commodities	10.555	2,943	2,219	-	2,943	2,943	-
Subtotal		<u>292,422</u>	<u>273,971</u>	<u>-</u>	<u>292,422</u>	<u>292,422</u>	<u>-</u>
Total Nutrition Cluster		<u>376,652</u>	<u>354,592</u>	<u>-</u>	<u>376,652</u>	<u>376,652</u>	<u>-</u>
Summer Food Program	10.559	15,525	14,914	4,842	15,525	16,102	4,265
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>392,177</u>	<u>369,506</u>	<u>4,842</u>	<u>392,177</u>	<u>392,754</u>	<u>4,265</u>
U.S. Department of Education:							
Direct Award							
Title VII Indian Education	84.060	27,816	15,443	-	27,816	27,816	-
Passed through Mich. Department of Education:							
ECIA Title I:							
091503 0809	84.010	467,979	-	-	424,208	262,284	161,924
081503 0708	84.010	500,457	432,261	106,138	-	106,138	-
Subtotal		<u>968,436</u>	<u>432,261</u>	<u>106,138</u>	<u>424,208</u>	<u>368,422</u>	<u>161,924</u>
ECIA Title VI Part B Subpart 2							
09660 0809	84.298	33,733	-	-	33,733	23,000	10,733
08660 0708	84.298	43,836	43,836	11,437	-	11,437	-

GWINN AREA COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2008	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2009
ECIA Title V: 080250 0708	84.298	\$ 5,568	\$ 5,568	\$ 2,399	\$ -	\$ 2,399	\$ -
Subtotal		<u>83,137</u>	<u>49,404</u>	<u>13,836</u>	<u>33,733</u>	<u>36,836</u>	<u>10,733</u>
ECIA Title IID: 094290 0809 084290 0708	84.318 84.318	3,603 4,262	- 4,262	- -	3,603 -	3,149 -	454 -
Subtotal		<u>7,865</u>	<u>4,262</u>	<u>-</u>	<u>3,603</u>	<u>3,149</u>	<u>454</u>
ECIA Title IIA: 090520 0809 080520 0708	84.367 84.367	133,961 153,552	- 120,124	- 37,781	116,100 -	66,213 37,781	49,887 -
Subtotal		<u>287,513</u>	<u>120,124</u>	<u>37,781</u>	<u>116,100</u>	<u>103,994</u>	<u>49,887</u>
ARRA Stabilization 2009: 092525 0809	84.394	505,074	-	-	505,074	-	505,074
Subtotal		<u>505,074</u>	<u>-</u>	<u>-</u>	<u>505,074</u>	<u>-</u>	<u>505,074</u>
TOTAL PASSED THROUGH MDE		<u>1,852,025</u>	<u>606,051</u>	<u>157,755</u>	<u>1,082,718</u>	<u>512,401</u>	<u>728,072</u>
Passed Through Delta-Schoolcraft Intermediate School District (D.S.I.S.D.):							
Perkins - 093520-90122	84.048	5,368	-	-	5,368	5,368	-
TOTAL PASSED THROUGH D.S.I.S.D.		<u>5,368</u>	<u>-</u>	<u>-</u>	<u>5,368</u>	<u>5,368</u>	<u>-</u>
Passed Through Marquette-Alger Regional Educational Service Agency (M.A.R.E.S.A.):							
Health Schools MNN grant #11-0-624180	10.561	-	156	156	-	156	-
P.L. 94-192 Flow Through - #090450 0809	84.027	26,018	-	-	26,018	14,668	11,350
P.L. 94-192 Flow Through - #080450 0708	84.027	30,188	30,188	16,512	-	16,512	-
Subtotal		<u>56,206</u>	<u>30,188</u>	<u>16,512</u>	<u>26,018</u>	<u>31,180</u>	<u>11,350</u>
Perkins - 07-08 8012-02	84.048	-	5,997	439	-	439	-
Subtotal		<u>-</u>	<u>5,997</u>	<u>439</u>	<u>-</u>	<u>439</u>	<u>-</u>

GWINN AREA COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2008	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2009
Safe & Drug Free Schools 082860 0708	84.186	\$ 3,415	\$ 3,415	\$ 3,415	\$ -	\$ 3,415	\$ -
Safe & Drug Free Schools 092860 0809	84.186	3,255	-	-	3,255	331	2,924
Subtotal		<u>6,670</u>	<u>3,415</u>	<u>3,415</u>	<u>3,255</u>	<u>3,746</u>	<u>2,924</u>
Title II-D Ed Tech #074240/2-1	84.318	-	231	-	-	-	-
Transition - #090490 TS	84.323	240	298	-	240	162	78
Title II-A Improve Teacher Quality	84.367	214	340	-	214	45	169
LEA Medicaid FFS-Transportation	93.778	1,029	1,408	-	1,029	1,029	-
Learn & Serve MSBF-09-52200	94.004	289	1,134	577	289	577	289
TOTAL PASSED THROUGH M.A.R.E.S.A.		<u>64,648</u>	<u>43,167</u>	<u>21,099</u>	<u>31,045</u>	<u>37,334</u>	<u>14,810</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,949,857</u>	<u>664,661</u>	<u>178,854</u>	<u>1,146,947</u>	<u>582,919</u>	<u>742,882</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 2,342,034</u>	<u>\$ 1,034,167</u>	<u>\$ 183,696</u>	<u>\$ 1,539,124</u>	<u>\$ 975,673</u>	<u>\$ 747,147</u>

GWINN AREA COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

NOTE A – OVERSIGHT AGENCY:

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

NOTE B – BASIS OF ACCOUNTING:

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

NOTE C – FINAL COST REPORT - FORM DS4044:

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

NOTE D – SCHEDULE OF FEDERAL AWARDS:

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

Current Payments per R7120:		\$363,281
Plus: Payments not on R7120:		
Passed through M.A.R.E.S.A. and D.S.I.S.D	\$42,702	
Passed through Michigan Department of Education	721,446	
Title VII	27,816	
Food distribution commodities	29,472	
		821,436
Less: Deferred revenue at the beginning of the year		
M.A.R.E.S.A.	21,099	
Michigan Department of Education	157,755	
Department of Agriculture	4,842	
		(183,696)
Plus: Deferred revenue at the end of the year		
M.A.R.E.S.A.	14,810	
Michigan Department of Education	728,072	
Department of Agriculture	4,265	
		747,147
Less: Amounts included on Grantor Auditor Report that were received by District after 6/30/09		
Title I Part A	149,331	
Title II Part D	454	
Title VI Part B	10,733	
Title II Part A	48,527	
		(209,045)

NOTE D – SCHEDULE OF FEDERAL AWARDS (Continued):

Rounding	<u>1</u>
Total Federal Awards Expenditures Reported In the Schedule of Federal Awards	<u>\$1,539,124</u>

NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):

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

GENERAL FUND:

Total Federal Revenue Sources reported in the financial statements	\$1,539,121
Reconciling Items:	
Other minor differences in program revenues	<u>3</u>
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	<u>\$1,539,124</u>

GWINN AREA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Gwinn Area Community Schools.
2. There were significant deficiencies disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Gwinn Area Community Schools disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Gwinn Area Community Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Gwinn Area Community Schools were disclosed during the audit.
7. The programs tested as major programs were:

<u>Program</u>	<u>CFDA #</u>
ARRA Stabilization 2009	84.394

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Gwinn Area Community Schools was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

09-01 JOURNAL ENTRY REVIEW/APPROVAL

Condition/Criteria: Journal entries are prepared by various staff in the Administrative Office. Records of all journal entries are maintained, but none of the journal entries are being review by anyone other than the preparer. Internal controls rely on the principle of checks and balances, which requires that no one individual should be responsible for more than one of the three components of internal control: authorization, custody, and recordkeeping.

Cause of Condition: The size of the organization's accounting staff, at times, precludes certain internal design controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect: The lack of segregation of duties increases the chance that misstatements, whether caused by error or fraud, could occur and not be prevented or detected on a timely basis by employees in the course of performing their assigned duties.

Recommendation: The Superintendent should review and document the review of all journal entries at least on a monthly basis.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Michael Maino, Superintendent
- Corrective Action Planned:
 - The accounting staff in the Administrative Office will submit copies of journal entries to the Superintendent on a monthly basis. The Superintendent will review and approve the journal entries.
- Anticipated Completion Date:
 - June 30, 2010

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

NONE

GWINN AREA COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2009

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

COMMUNICATIONS SECTION



Gwinn Area Community Schools
Report to Management Letter
For the Year Ended June 30, 2009

September 28, 2009

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Gwinn Area Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

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

09-01 JOURNAL ENTRY REVIEW/APPROVAL

Condition/Criteria: Journal entries are prepared by various staff in the Administrative Office. Records of all journal entries are maintained, but none of the journal entries are being review by anyone other than the preparer. Internal controls rely on the principle of checks and balances, which requires that no one individual should be responsible for more than one of the three components of internal control: authorization, custody, and recordkeeping.

Cause of Condition: The size of the organization's accounting staff, at times, precludes certain internal design controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect: The lack of segregation of duties increases the chance that misstatements, whether caused by error or fraud, could occur and not be prevented or detected on a timely basis by employees in the course of performing their assigned duties.

Recommendation: The Superintendent should review and document the review of all journal entries at least on a monthly basis.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Michael Maino, Superintendent
- Corrective Action Planned:
 - The accounting staff in the Administrative Office will submit copies of journal entries to the Superintendent on a monthly basis. The Superintendent will review and approve the journal entries.
- Anticipated Completion Date:
 - June 30, 2010

Gwinn Area Community Schools' written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Education, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants



Gwinn Area Community Schools
Communications with Those Charged with Governance
For the Year Ended June 30, 2009

September 28, 2009

To Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools for the year ended June 30, 2009, and has issued our report thereon dated September 28, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 15, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether Gwinn Community Schools' financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about Gwinn Community Schools' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Gwinn Community Schools' compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on Gwinn Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will communicate our significant findings at the conclusion of the audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by Gwinn Area Community Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008-09. 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. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2009.

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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gwinn Area Community Schools’ ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gwinn Area Community Schools’ financial statements that is more than inconsequential will not be prevented or detected by the Gwinn Area Community Schools’ internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, items 09-01.

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

Anderson, Jackman & Company, PLLC
Certified Public Accountants