

**GWINN AREA COMMUNITY SCHOOLS  
GWINN, MICHIGAN**

**FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools, Gwinn, Michigan, as of and for the year ended June 30, 2011, which collectively comprise 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 Gwinn Area Community Schools as of June 30, 2011, 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 October 7, 2011, on our consideration of 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan

limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gwinn Area Community Schools' financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 7, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### GWINN AREA COMMUNITY SCHOOLS

#### YEAR ENDED JUNE 30, 2011

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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, 2011. 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 \$2,814,310. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools' expenses were \$12,621,873 while revenues from all sources totaled \$12,472,642, resulting in a decrease in net assets of \$149,227.
- September 2010 enrollment decreased 30 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 remained at \$7,316 per student; however there was a proration of \$170 per student.
- It was again necessary for the district to borrow from the Michigan Municipal Bond Authority (MMBA). The short-term agreement was for \$600,000 and was paid back in August 2011.
- The general fund reported a decrease in fund balance of \$43,931 after other financing sources (uses). This is \$3,973 less than the forecasted decrease of \$47,904 which is a net result of revenues totaling \$27,771 less than budgeted and expenditures totaling \$31,744 less than budgeted. These variances are all immaterial, less than .5%, when compared with budgeted revenues/transfers of \$11,906,334 and budgeted expenditures/transfers of \$11,954,238. There were no significant variances between the final budget and actual amounts.
- There was proration of \$170 per pupil which totaled \$219,064 in reduced revenue
- There was a separate proration of \$119.12 per pupil that was replaced with Stimulus Funds, totaling \$217,000 including carryover from the previous year. Had Stimulus Funds not been available the total loss of state funding would have been \$436,064
- The district received three other ARRA and Education Jobs grants-
  - Title I: \$115,245
  - Flowthrough: \$137,045
  - Edujobs: \$289,392
- Total ARRA/Education Jobs funding was \$758,682.

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

### 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 2006 – 2011). 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

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

of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

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

### Fund Financial Statements

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

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

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

### Financial Analysis of the District as a Whole

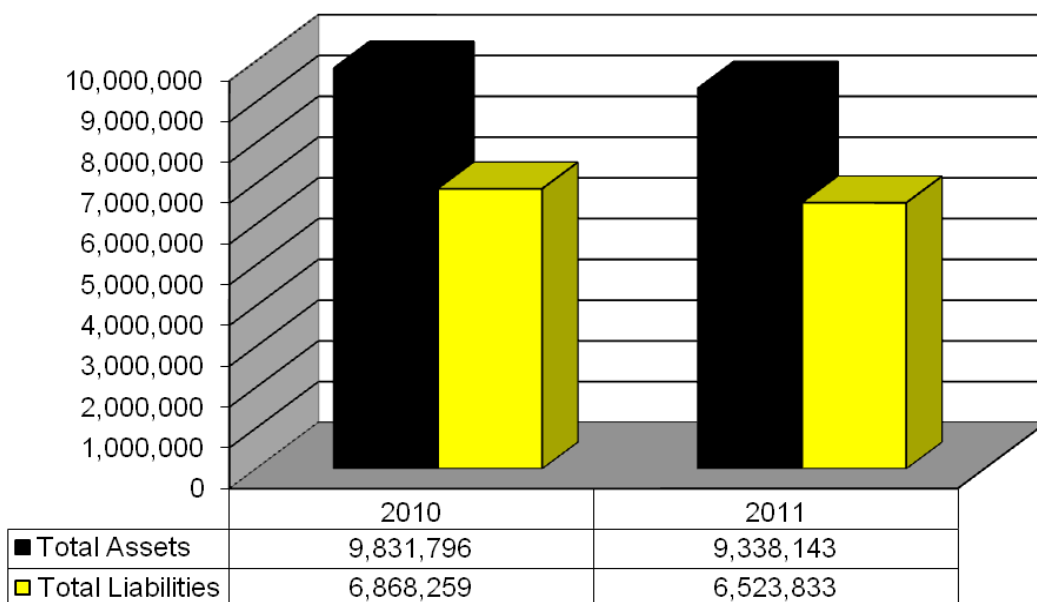
The condensed Statement of Net Assets as of June 30, 2011 and 2010 is as follows:

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

	Governmental Activities	
	2011	2010
Current Assets	\$3,900,818	\$4,309,700
Non-current assets	116,478	87,810
Capital Assets, net	5,320,847	5,434,286
Total Assets	<u>9,338,143</u>	<u>9,831,796</u>
Current liabilities	1,876,567	1,828,400
Non-current liabilities	4,647,266	5,039,859
Total Liabilities	<u>6,523,833</u>	<u>6,868,259</u>
Investment in Capital Assets, Net of Related Debt	776,676	759,902
Restricted for:		
Prepays – General Fund	17,914	-
School Lunch	77,055	69,037
Debt Service	64,747	97,750
Capital Projects	175,594	552,520
Unrestricted	1,702,324	1,484,328
Ending Net Assets	<u>\$2,814,310</u>	<u>\$2,963,537</u>

The District's net assets were \$2,814,310 at June 30, 2011. This is broken down into three categories. **1)** Capital assets, net of related debt: this category totaled \$776,676 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: Prepays – General Fund, Food Service Fund, Debt Service, and Capital Projects had restricted net assets in the amounts of \$17,914, \$77,055, \$64,747, and \$175,594 respectively. **3)** Unrestricted: the remaining amount of net assets of \$1,702,324 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 2010 vs. 2011 – 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 2011.

The condensed Statement of Activities for the fiscal year ended June 30, 2011 and 2010 is as follows:

	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Charges for Services	\$219,132	\$277,968
Operating Grants and Contributions	3,392,223	3,535,215
General Revenues		
Property taxes, levied for general purposes	1,602,852	1,636,495
Property taxes, levied for debt service	119,595	118,315
State of Michigan aid, unrestricted	7,153,218	7,113,366
Interest and investment earnings	3,093	5,974
Loss on sale of fixed assets	(74,976)	-
Other	57,509	42,670
Total Revenues	<u>12,472,646</u>	<u>12,730,003</u>
Program Expenses:		
Instruction and instructional support	7,589,512	7,322,180
Support Services	3,902,090	3,835,303
Food Services	515,888	548,390
Athletics	-	256,932
Community services	24,614	75,860
Interest on retirement of debt	139,049	176,055
Annual sinking fund requirement	110,714	-
Other	-	9,877
Depreciation (unallocated)	340,006	314,678
Total Expenses	<u>12,621,873</u>	<u>12,539,275</u>
Change in Net Assets	(149,227)	190,728
Beginning Net Assets	2,963,537	2,772,809
Ending Net Assets	<u>\$ 2,814,310</u>	<u>\$ 2,963,537</u>

As reported in the Statement of Activities, the cost of all our governmental activities this year was \$12,621,873. Certain activities were partially funded from those who benefited from the programs \$219,132 or by other governments and organizations that subsidized certain programs with grants and categoricals \$3,392,223. We paid for the remaining "public benefit" portion of our governmental activities with \$7,153,218 in State Foundation Allowance, \$1,602,852 in taxes, and other revenues/sources, such as interest, general entitlements and fund balance.

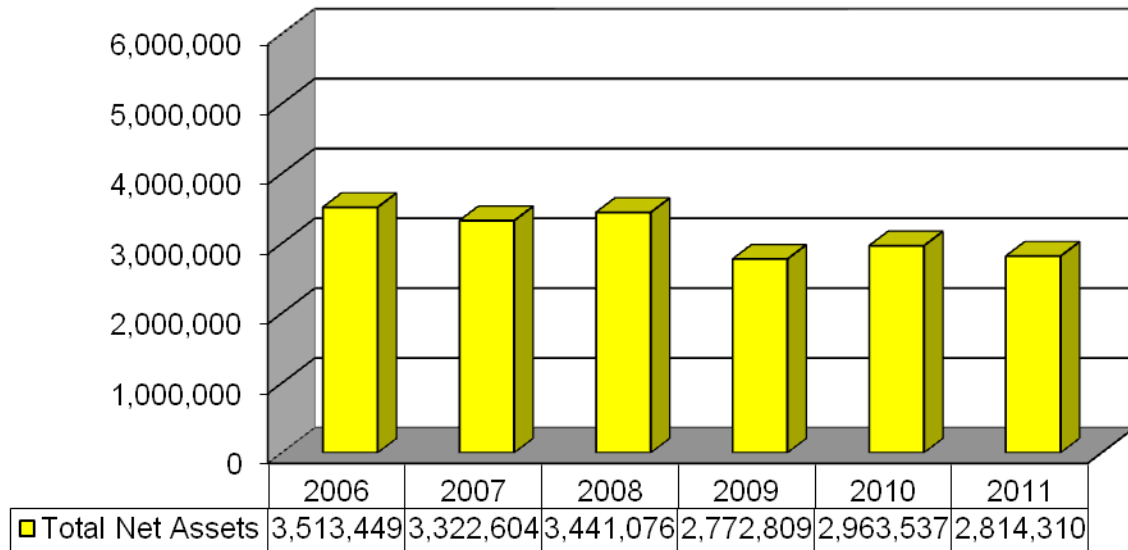
The District experienced a decrease in net assets for the year of \$149,227. Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of (\$445,842)
- Depreciation charged to expense in the amount of (\$340,006)
- Purchase of capital assets in the amount of \$377,730
- Net book value of disposed assets in the amount of (\$115,098)

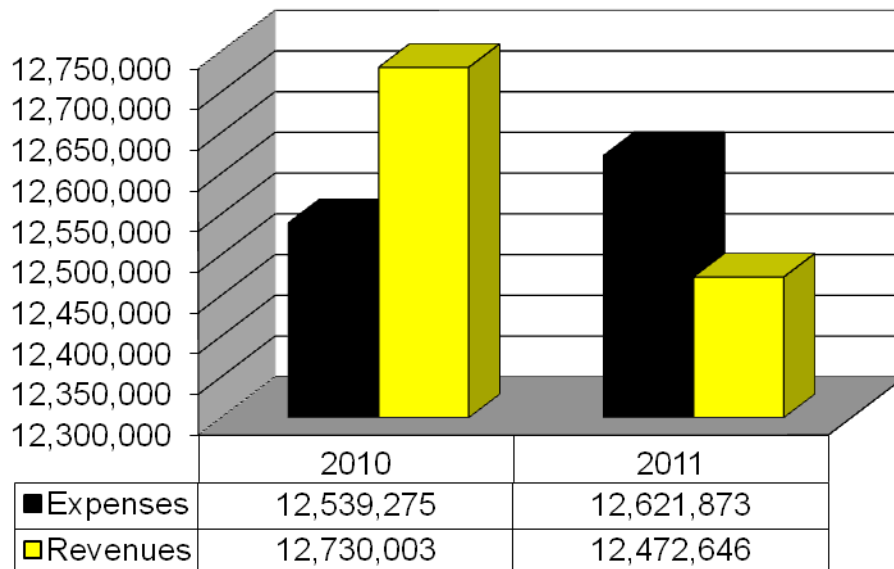
**MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

- Voluntary Severance Plan payment in the amount of \$173,329
- Compensated absences not reported as expenditures in the amount of (\$26,404)
- Repayment of bond principal of \$231,404

**Net Assets 2006 – 2011**

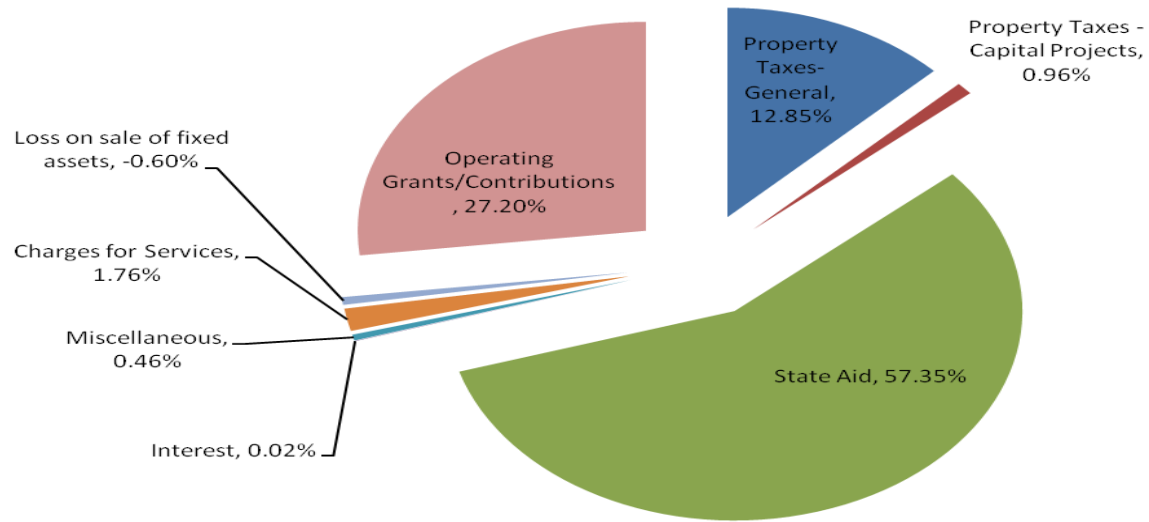


**Revenues and Expenses 2010 vs. 2011 – Statement of Activities**

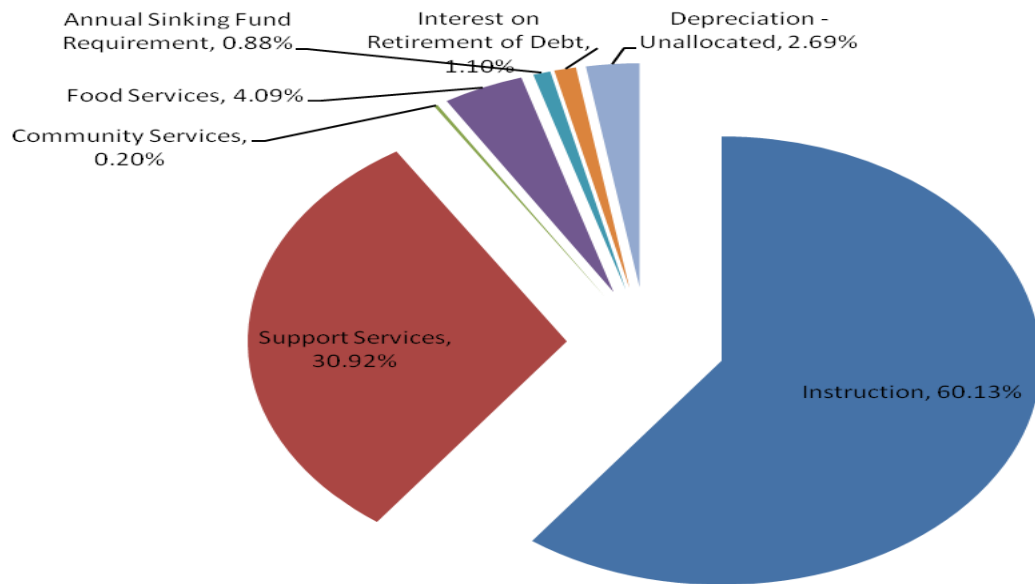


**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

**Sources of Revenues for Fiscal Year 2011 – Statement of Activities**



**Expenses for Fiscal Year 2011 – 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 \$12,621,873; however, the following table excludes \$589,769 of costs related to: depreciation (\$340,006), Annual Sinking Fund Requirement (\$110,714) and interest on retirement of debt (\$139,049).

<b>Governmental Activities</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Instruction	\$7,589,512	\$7,322,180	\$4,775,874	\$4,274,982
Support Services	3,902,090	3,835,303	3,729,703	3,810,843
Food Services	515,888	548,390	(93,322)	(87,171)
Athletics	-	256,932	-	183,045
Community Services	24,614	75,860	8,494	43,783
Totals	<u>\$12,032,104</u>	<u>\$12,038,665</u>	<u>\$8,420,749</u>	<u>\$8,225,482</u>

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 12.85% and 57.35%, 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 \$2,468,629, a decrease of \$445,842 from the beginning of the year. The change in the combined fund balance was due in minor part to the decrease of fund balance in the General Fund. The biggest decrease in combined fund balance came from a capital project fund (QSCB) that finished most of its projects and is no longer retaining funds for those projects. This should not be of concern because the projects are funded by a millage and the bonds were sold in order to complete projects, not retain a fund balance.

### 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 2011, the budget was amended in February 2011 and again in June 2011. 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 1,286 in the original budget and 189.68 in the final.
- Updated all grant allocations and expenditures
- Increased special education payments from MARESA due to decreased services taken by District
- Reduced costs for heating due to change in buying method

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2011 and 2010, the District had \$5,356,911 and \$5,434,286, respectively invested in a variety of capital assets including land, buildings, and machinery and equipment.

	Governmental Activities	
	2011	2010
<b>Capital Assets at Year-End</b>		
Land	\$36,064	\$37,293
Construction in progress	-	1,059,788
Building & grounds	4,895,022	3,892,342
Site improvements	57,287	60,592
Machinery & equipment	181,092	174,339
Vehicles	187,446	209,932
Totals	<u>\$5,356,911</u>	<u>\$5,434,286</u>

This year's net decrease of \$77,375 was due to the sale of the Middle School building. We present more detailed information about our capital assets in the notes (Note E).

At June 30, 2011 and 2010, the School District had \$4,598,058 and \$ 4,829,463 respectively, in the School Improvement Bond, Series 1998, Qualified School Construction Bonds, Performance Contract Bonds and Qualified Zone Academy Bonds.

	Governmental Activities	
	2011	2010
<b>Outstanding Debt at Year-End</b>		
School Improvement Bonds	\$44,953	\$65,911
Qualified School Construction Bonds	1,550,000	1,550,000
Performance Contract Bonds	1,375,000	1,460,000
Qualified Zone Academy Bonds	1,628,105	1,753,552
Totals	<u>\$ 4,598,058</u>	<u>\$ 4,829,463</u>

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

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

**Factors Bearing on the District’s Future**

Our elected officials and administration consider many factors when setting the District’s fiscal year 2011 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 2011	10%			
September Count 2011	90%			
		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 2009	25%	
September Count 2009	75%	
		Blended Count 2009

February Count 2010	25%	
September Count 2010	75%	
		Blended Count 2010

February Count 2011	<b>10%</b>	
September Count 2011	<b>90%</b>	
		Blended Count 2011

$$\frac{(\text{Blended Count 2009} + \text{Blended Count 2010} + \text{Blended Count 2011})}{3} = \text{Average Blended Count}$$

(Notice the change beginning with February 2011 to a 90/10 split as this is new legislation.)

District officials began projecting the 11-12 budget in the Fall of 2010 once the teacher’s union contract was settled to show the effect of the wage and fringe liabilities in addition to the loss of ARRA and Edujobs grants. A new Governor and Legislature was elected in November 2010

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

and took office in January 2011, creating speculation as to the budget process and its priorities. Governor Snyder announced his intention to pass a two year budget by May of 2011. This was accomplished prior to the adoption of the District's budget in June 2011 and included a cut in foundation of \$470 per pupil but two separate one-time revenue categorical amounting to approximately \$200 per pupil. However the District did not anticipate being able to qualify for one of those categorical so it only budgeted for revenue from one of the new categoricals. The District used enrollment projections from an enrollment study it has commissioned for the past 4 years. Expenses are expected to exceed revenue by \$1,748,353, which will be taken out of the fund balance of \$2,151,233, leaving fund balance at just over \$400,000. The District has since determine that it will be able to qualify for the second categorical and when final enrollment numbers become available the 2012 budget will be amended to reflect these changes.

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.

Two contracts, the Administrators and Teamsters, expired at the end of 10-11 school year and both contracts were settled prior to the start of the 11-12 school year. The Administrator's contract is in effect until June 30, 2013 and the Teamster's contract is in effect until June 30, 2014. No contracts expire during or at the end of the 11-12 school year. For more detailed information all contracts are posted on our district's website: [www.gwinn.k12.mi.us](http://www.gwinn.k12.mi.us)

A financially sound district is one that routinely balances its budget and does not have to borrow to pay normal reoccurring bills. This year (11-12) it was necessary to borrow \$ 900,000 from the MMBA to bridge the cash flow gap, primarily due to the timing in state aid payments. This is \$300,000 more than last year (10-11) and \$600,000 more than the year before that (09-10). Again, we are not able to make set-aside payments January 2012 – May 2012 and the loan is scheduled to be paid in a lump sum in August of 2012.

### **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, 2011**

	<u><b>Governmental Activities</b></u>
<b>ASSETS:</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 391,604
Investments	1,602,774
Receivables:	
Accounts receivable	57,392
Due from other governmental units	1,827,275
Inventories	3,859
Prepaid expense	<u>17,914</u>
<b>TOTAL CURRENT ASSETS</b>	<u><b>3,900,818</b></u>
<b>Non-current assets:</b>	
Unamortized bond issuance costs	71,817
Unamortized bond discount	8,597
Land	36,064
Capital assets, net	<u>5,320,847</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u><b>5,437,325</b></u>
<b>TOTAL ASSETS</b>	<u><b>9,338,143</b></u>
<b>LIABILITIES:</b>	
<b>Current liabilities:</b>	
Accounts payable	264,246
Due to other governmental units	123,021
Accrued liabilities	432,959
Accrued interest	27,130
State aid note	602,217
Deferred revenue	9,746
Current portion of severance payable	173,342
Current portion of long term debt obligations	<u>243,906</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u><b>1,876,567</b></u>
<b>Non-current liabilities:</b>	
Unamortized bond premium	17,543
Non-current portion of employee benefit obligations	275,571
Non-current portion of long term debt obligations	<u>4,354,152</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u><b>4,647,266</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>6,523,833</b></u>
<b>NET ASSETS:</b>	
Invested in capital assets net of related debt	776,676
Restricted	335,310
Unrestricted	<u>1,702,324</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 2,814,310</b></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, 2011**

<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>	
<b>Governmental Activities:</b>				
Instruction	\$ 7,589,512	\$ -	\$ 2,813,638	\$ (4,775,874)
Supporting services	3,902,090	62,389	109,998	(3,729,703)
Community services	24,614	16,120	-	(8,494)
Food service activities	515,888	140,623	468,587	93,322
Interest on retirement of debt	139,049	-	-	(139,049)
Annual sinking fund requirement	110,714	-	-	(110,714)
Depreciation - unallocated	340,006	-	-	(340,006)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>12,621,873</u>	<u>219,132</u>	<u>3,392,223</u>	<u>(9,010,518)</u>
<b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				1,602,852
Property taxes, levied for capital projects				119,595
State aid not restricted to specific purposes				7,153,218
Interest and investment earnings				3,093
Gain/(loss) on sale of fixed assets				(74,976)
Miscellaneous				<u>57,509</u>
<b>TOTAL GENERAL REVENUE AND TRANSFERS</b>				<u>8,861,291</u>
				<b>CHANGES IN NET ASSETS</b> (149,227)
Net Assets , July 1				<u>2,963,537</u>
				<b>NET ASSETS, JUNE 30</b> <u>\$ 2,814,310</u>

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

**GWINN AREA COMMUNITY SCHOOLS**

**Governmental Funds**

**Balance Sheet**

**June 30, 2011**

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 188,079	\$ 203,525	\$ 391,604
Investments	1,427,180	175,594	1,602,774
Receivables:			
Accounts receivable	29,489	7,069	36,558
Due from other funds	92,076	-	92,076
Due from other governmental units	1,827,275	-	1,827,275
Inventories	-	3,859	3,859
Other	17,914	-	17,914
	<u>17,914</u>	<u>-</u>	<u>17,914</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,582,013</u>	<u>\$ 390,047</u>	<u>\$ 3,972,060</u>
 <b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 262,837	\$ 1,409	\$ 264,246
Accrued liabilities	432,959	-	432,959
Due to other funds	-	71,242	71,242
Due to other governmental units	123,021	-	123,021
Deferred revenue	9,746	-	9,746
State aid notes payable	602,217	-	602,217
	<u>602,217</u>	<u>-</u>	<u>602,217</u>
<b>TOTAL LIABILITIES</b>	<u>1,430,780</u>	<u>72,651</u>	<u>1,503,431</u>
 <b>FUND BALANCES:</b>			
Non-spendable	17,914	3,859	21,773
Restricted	-	313,537	313,537
Committed	-	-	-
Assigned	2,023,924	-	2,023,924
Unassigned	109,395	-	109,395
	<u>109,395</u>	<u>-</u>	<u>109,395</u>
<b>TOTAL FUND BALANCES</b>	<u>2,151,233</u>	<u>317,396</u>	<u>2,468,629</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,582,013</u>	<u>\$ 390,047</u>	<u>\$ 3,972,060</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, 2011**

**Total Fund Balances for Governmental Funds** \$ 2,468,629

*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	\$ 12,153,335	
	Accumulated depreciation	<u>(6,796,424)</u>	5,356,911

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	243,906		
Bonds payable - long term	4,354,152		
Accrued interest	27,130		
Employee benefits payable	275,571		
Voluntary Severance Plan payable	<u>173,342</u>		(5,074,101)

Unamortized bond issue costs are not financial resources and therefore are not reported in the funds 71,817

Unamortized bond issue discounts are not financial resources and therefore are not reported in the funds 8,597

Unamortized bond premiums are not financial resources and therefore are not reported in the funds (17,543)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 2,814,310**

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, 2011**

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
<b>REVENUES:</b>			
Local sources	\$ 1,813,490	\$ 261,817	\$ 2,075,307
State sources	8,052,928	53,564	8,106,492
Federal sources	1,383,169	438,800	1,821,969
Other	543,854	-	543,854
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUES</b>	<b>11,793,441</b>	<b>754,181</b>	<b>12,547,622</b>
<b>EXPENDITURES:</b>			
Current:			
Instruction	7,722,492	-	7,722,492
Supporting services	3,900,274	-	3,900,274
Community services	22,163	-	22,163
Food service activities	-	511,820	511,820
Capital Outlay	70,285	329,723	400,008
Debt Service:			
Principal	-	342,119	342,119
Interest	13,572	121,138	134,710
Bond Issuance Costs	-	-	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	<b>11,728,786</b>	<b>1,304,800</b>	<b>13,033,586</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>64,655</b>	<b>(550,619)</b>	<b>(485,964)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of property	40,122	-	40,122
Transfers in	45,000	286,210	331,210
Transfers out	(193,708)	(137,502)	(331,210)
	<hr/>	<hr/>	<hr/>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(108,586)</b>	<b>148,708</b>	<b>40,122</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(43,931)</b>	<b>(401,911)</b>	<b>(445,842)</b>
Fund Balance, July 1	2,195,164	719,307	2,914,471
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 2,151,233</b>	<b>\$ 317,396</b>	<b>\$ 2,468,629</b>
	<hr/>	<hr/>	<hr/>

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, 2011**

**Net Change in Fund Balances - Total Governmental Funds** \$ (445,842)

*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	\$	340,007	
Capital outlays		(377,730)	
Net book value of disposed assets		<u>115,098</u>	(77,375)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 231,404

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,303

Premium and discounts are recognized in the financial statements as other financing sources or uses but, they are amortized over the term of the bonds in the government-wide financial statements. (5,642)

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>(173,329)</u>	173,329
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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>26,404</u>	<u>(26,404)</u>
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**Change in Net Assets of Governmental Activities** \$ (149,227)

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

**GWINN AREA COMMUNITY SCHOOLS**

**Fiduciary Funds**

**Statement of Fiduciary Net Assets**

**June 30, 2011**

	<u>Private Purpose Trust Fund</u>	<u>Student Activities</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 6,562	\$ 141,286
Investments	94,966	-
Accounts receivable	-	-
	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 101,528</u></u>	<u><u>\$ 141,286</u></u>
<b>LIABILITIES:</b>		
Accounts payable	\$ -	\$ 167
Due to other funds	-	20,834
Due to student groups	-	120,285
	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<u>                    -</u>	<u><u>\$ 141,286</u></u>
<b>NET ASSETS:</b>		
Reserved for: Scholarships	<u>101,528</u>	
<b>TOTAL NET ASSETS</b>	<u><u>\$ 101,528</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, 2011**

	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS:</b>	
Interest	\$ 3,781
Donations	10,000
Unrealized gain on investments	<u>8,741</u>
<b>TOTAL ADDITIONS</b>	<u>22,522</u>
<b>DEDUCTIONS:</b>	
Scholarships awarded	<u>4,800</u>
<b>TOTAL DEDUCTIONS</b>	<u>4,800</u>
<b>CHANGE IN NET ASSETS</b>	17,722
Net Assets, July 1	<u>83,806</u>
<b>NET ASSETS, JUNE 30</b>	<u><u>\$ 101,528</u></u>

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

## **GWINN AREA COMMUNITY SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

##### *Reporting Entity*

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

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

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

##### *Basic Financial Statements – Government-Wide Financial Statements*

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

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

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

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

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

### *Basic Financial Statements – Fund Financial Statements:*

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

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

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

### Governmental Funds

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

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

**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, the Debt Service QZAB Fund, the Debt Service Performance Contract Fund and the Debt Service QSCB Fund.

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

**Capital Projects Funds** – 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, the QZAB Fund, the Performance Contract Fund, and the QSCB 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.

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

### **Basis of Accounting**

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

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

### Cash and Equivalents

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

### Investments

Investments are carried at market value.

### Receivables

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

### Due From and To Other Funds

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

### Inventory

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

### Capital Assets

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

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:

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

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

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

### Long-Term Debt

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

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

### Compensated Absences

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

### Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$9,746 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. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

### *Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. Proprietary fund equity is classified the same as in the district-wide statements.

### Revenues

#### *District-Wide Statements*

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

### *Fund Statements*

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

### Property Taxes

Property taxes are levied December 1, on behalf of the District by various taxing units and are payable without penalty by February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.)

Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

### Expenses/Expenditures

#### *District-Wide Statements*

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

### *Fund Statements*

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

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

### Interfund Activity

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

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

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

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

Budgets and Budgetary Accounting

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

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

Use of Estimates

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

Subsequent Events

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

**NOTE B – DEPOSITS AND INVESTMENTS:**

Cash Equivalents

As of June 30, 2011, 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	\$391,604	\$147,848	\$539,452
Investments	1,602,774	94,966	1,697,740
	<u>\$1,994,378</u>	<u>\$242,814</u>	<u>\$2,237,192</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 \$539,452 and the bank balance was \$758,434. The bank balance is categorized as follows.

**NOTE B – DEPOSITS AND INVESTMENTS (Continued):**

Amount insured by the FDIC	\$423,476
Amount uncollateralized and uninsured	334,958
	<u>\$758,434</u>

Investments

As of June 30, 2011, the District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities Maturities Less Than 1 Year</u>
MILAF Funds	\$126,853	\$126,853
MLAF Funds	1,475,921	1,475,921
Wells Fargo Mutual Funds	85,410	85,410
Wells Fargo Preferred Stocks – no maturities	9,557	-
TOTAL INVESTMENTS	<u>\$1,697,741</u>	<u>\$1,688,184</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.

*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 \$1,827,275. Of that balance \$1,468,438 is due from the State of Michigan for State Aid.

**NOTE D – 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 E – CAPITAL ASSETS:**

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

	Balance 7/01/10	Additions	Deductions	Balance 6/30/11
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$37,293	\$ -	\$ (1,229)	\$36,064
Construction in progress	1,059,788	-	(1,059,788)	-
Capital assets being depreciated:				
Site improvements	408,400	-	-	408,400
Buildings and improvements	9,075,741	1,344,941	(797,081)	9,623,601
Equipment	790,527	53,186	-	843,713
Vehicles and buses	1,202,166	39,391	-	1,241,557
Total Capital Assets	<u>12,573,915</u>	<u>1,437,518</u>	<u>(1,858,098)</u>	<u>12,153,335</u>
Less accumulated depreciation:				
Site improvements	(347,808)	(3,305)	-	(351,113)
Buildings and improvements	(5,183,399)	(228,391)	683,211	(4,728,579)
Equipment	(616,188)	(46,433)	-	(662,621)
Vehicle and buses	(992,234)	(61,877)	-	(1,054,111)
Total Accumulated Depreciation	<u>(7,139,629)</u>	<u>(340,006)</u>	<u>683,211</u>	<u>(6,796,424)</u>
Governmental Activities Capital Assets, Net	<u>\$5,434,286</u>	<u>\$1,097,512</u>	<u>\$(1,174,887)</u>	<u>\$5,356,911</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	<u>\$340,006</u>
Total Governmental Activities Depreciation Expense	<u>\$340,006</u>

**NOTE F – PRIVATE PURPOSE TRUST FUND:**

The School District reserves fund equities for the following funds:

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 G – FUND BALANCES – GOVERNMENTAL FUNDS:**

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

*Nonspendable* — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**NOTE G – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):**

*Committed* — amounts that can be used only for specific purposes determined by a formal action of the Board of Education. Board of Education is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

*Assigned* — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District’s adopted policy, only the Superintendent or the Board of Education may assign amounts for specific purposes.

*Unassigned* — all other spendable amounts.

As of June 30, 2011, fund balances are composed of the following:

	General Fund	School Lunch Fund	Debt Service Funds	Capital Projects Funds	Total Governmental Funds
Non-spendable:					
Inventories	\$-	\$3,859	\$-	\$-	\$3,859
Prepays	17,914	-	-	-	17,914
Restricted:					
School Lunch	-	63,501	-	-	63,501
Debt Service	-	-	64,747	-	64,747
Construction Projects	-	-	-	175,594	175,594
FY11/12 Budgeted Shortfall	-	9,695	-	-	9,695
Committed:					
Assigned:					
Compensated Absences	275,571	-	-	-	275,571
FY11/12 Budgeted Shortfall	1,748,353	-	-	-	1,748,353
Unassigned	109,395	-	-	-	109,395
Total fund balances	<u>\$2,151,233</u>	<u>\$77,055</u>	<u>\$64,747</u>	<u>\$175,594</u>	<u>\$2,468,629</u>

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Superintendent through amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

**NOTE H – ACCRUED LIABILITIES:**

A summary of accrued liabilities at June 30, 2011 is as follows:

	Governmental Activities
Accrued wages	\$ 422,531
Withholding payable	10,428
	<u>\$ 432,959</u>

**NOTE I – 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, 2011 is as follows:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Short-term debt:				
State anticipation note, 2010-2011	\$-	\$602,217	\$-	\$602,217
TOTAL	<u>\$-</u>	<u>\$602,217</u>	<u>\$-</u>	<u>\$602,217</u>

In August 2011, the District borrowed \$900,000 at 0.311% annual interest rate on a state aid anticipation note through the Michigan Municipal Bond Authority. The note is collateralized by 2011-2012 state school aid revenues.

**NOTE J – LONG-TERM OBLIGATIONS:**

A summary of long-term obligations at June 30, 2011, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
School Improvement Bonds – Series 1998	\$65,911	\$ -	\$20,958	\$44,953	\$21,954
2007 Energy Conservation and Building Improvement and Site Bonds	1,753,552	-	125,447	1,628,105	126,952
2009 Energy Conservation Improvement Bonds	1,460,000	-	85,000	1,375,000	95,000
2009 Qualified School Construction Bonds	1,550,000	-	-	1,550,000	-
Subtotal	<u>4,829,463</u>	<u>-</u>	<u>231,405</u>	<u>4,598,058</u>	<u>243,906</u>
Employee Benefits	277,478	-	1,907	275,571	-
2008/2009 Voluntary Severance Plan	346,671	-	173,329	173,342	173,342
Subtotal	<u>624,149</u>	<u>-</u>	<u>175,236</u>	<u>448,913</u>	<u>173,342</u>
TOTAL LONG-TERM DEBT	<u>\$5,453,612</u>	<u>\$-</u>	<u>\$406,641</u>	<u>\$5,046,971</u>	<u>\$417,248</u>

The annual debt service requirements for the School District's debt (excluding compensated absences) for the years ending June 30, 2011 through June 30, 2024 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

**NOTE J – LONG-TERM OBLIGATIONS (Continued):**

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:

<b>School Improvement Bonds</b>			
<b>June 30, 2011</b>			
May 15			
School Year	Interest	Principal	Total
2011-2012	\$2,140	\$21,954	\$24,094
2012-2013	1,095	22,999	24,094
Totals	<u>\$3,235</u>	<u>\$44,953</u>	<u>\$48,188</u>

The Energy Conservation and Building Improvement and Site Bonds, Series 2007 (\$2,000,000) dated December 6, 2007 mature annually on December 6<sup>th</sup>, 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 for general operating purposes.

<b>2007 Energy Conservation and Building Improvement and Site Bonds</b>			
<b>June 30, 2011</b>			
May 6			
School Year	Interest	Principal	Total
2011-2012	\$19,537	\$126,952	\$146,489
2012-2013	18,014	128,476	146,490
2013-2014	16,472	130,017	146,489
2014-2015	14,912	131,577	146,489
2015-2016	13,333	133,156	146,489
2016-2021	42,311	690,137	732,448
2021-2023	5,189	287,790	292,979
Totals	<u>\$129,768</u>	<u>\$1,628,105</u>	<u>\$1,757,873</u>

The Energy Conservation and Building Improvement and Site Bonds, Series 2009 (\$1,505,000) dated June 11, 2009 mature annually on May 1<sup>st</sup>, 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.

<b>2009 Energy Conservation and Building Improvement and Site Bonds</b>				
<b>June 30, 2011</b>				
School Year	November 1	May 1		Total
	Interest	Interest	Principal	
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
2014-2015	20,850	20,850	130,000	171,700
2015-2016	18,413	18,413	140,000	176,826
2016-2021	48,300	48,300	785,000	881,600
Totals	<u>\$161,250</u>	<u>\$161,250</u>	<u>\$1,375,000</u>	<u>\$1,697,500</u>

**NOTE J – LONG-TERM OBLIGATIONS (Continued):**

The 2009 School Building and Site Bonds (General Obligation – Unlimited Tax) (Qualified School Construction Bonds) (\$1,550,000) dated November 5, 2009 mature on May 1, 2024. The Bonds were issued as “qualified school construction bonds” as defined in Section 54F of the Code and are comprised of a principal component and tax credit components evidenced by the tax credit certificates associated with each Bond. Interest on the Bonds is payable on each November 1 and May 1 to maturity with the principal on the Bonds payable at maturity, May 1, 2024 from the Sinking Fund. The Sinking Fund is held by a third party agent for disbursement of all principal and interest requirements. The estimated schedule of sinking fund deposits for principal and interest earnings estimated are listed in the table below. The permitted sinking fund yield is 4.53% - which is maximum permitted yield for the sinking fund expected to be used to repay the issue. Proceeds of the bonds were used for school building and site purposes. The primary revenue source for making the debt service payment on these Qualified School Construction Bonds will be property taxes, which are levied through a voted millage within the authorized constitutional and statutory tax limitations.

**2009 Qualified School Construction Bonds  
Payments from Sinking Fund Agent  
June 30, 2011**

School Year	November 1	May 1	
	Interest	Interest	Principal
2011-2012	\$21,119	\$21,119	\$-
2012-2013	21,119	21,119	-
2013-2014	21,119	21,119	-
2014-2015	21,119	21,119	-
2015-2016	21,119	21,119	-
2016-2021	105,595	105,595	-
2021-2024	63,357	63,357	1,550,000
Totals	<u>\$274,547</u>	<u>\$274,547</u>	<u>\$1,550,000</u>

**2009 Qualified School Construction Bonds  
Estimated Schedule of Sinking Fund Deposits with Agent  
June 30, 2011**

School Year	Estimated Interest Earnings	Estimated Net Sinking Fund Deposit	Estimated Balance of Fund on Deposit
2010-2011	\$-	\$110,714	\$110,714
2011-2012	3,017	107,697	221,428
2012-2013	6,033	104,680	332,141
2013-2014	9,051	101,663	442,855
2014-2015	12,068	98,646	553,569
2015-2020	105,592	447,977	1,107,138
2020-2024	138,782	304,080	1,550,000
Totals	<u>\$274,543</u>	<u>\$1,275,457</u>	

The actual amount of funds on deposit at June 30, 2011 with the Agent was \$109,608.

**NOTE J – LONG-TERM OBLIGATIONS (Continued):**

As of June 30, 2011 the aggregate maturities of long-term debt are as follows:

School Year	Interest	Principal	Total
2011-2012	\$116,077	\$243,906	\$359,983
2012-2013	110,659	256,475	367,134
2013-2014	104,610	250,017	354,627
2014-2015	98,850	261,577	360,427
2015-2016	92,397	273,156	365,553
2016-2021	350,101	1,475,137	1,825,238
2021-2024	131,903	1,837,790	1,969,693
	\$1,004,597	\$4,598,058	5,602,655
		Employee Benefits Payable	275,571
		2008/09 Voluntary Severance Plan	173,342
			448,913
		TOTALS	\$6,051,568

**NOTE K – 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.

As of June 30, 2011 composition of the liability for employee benefits as reported in the statement of net assets is as follows:

Paid time off – Teamsters	\$33,731
Sick leave – Central office	37,354
Sick leave – Principals	21,875
Sick leave – Teachers	159,327
Personal leave – Principals	-
Vacation – Central office	23,284
	\$275,571

The liability has been recognized as follows:

Current portion	\$-
Long-term portion	275,571
	\$275,571

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 1<sup>st</sup> 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 L – 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.

The amounts of interfund receivables and payables as of June 30, 2011 are as follows:

		DUE FROM OTHER FUNDS			
		General Fund	QZAB Fund	PC Fund	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-
	School Lunch Fund	71,242	-	-	71,242
	Student Activities Fund	20,834	-	-	20,834
	Total Due From Other Funds	<u>\$92,076</u>	<u>\$-</u>	<u>\$-</u>	<u>\$92,076</u>

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, 2011 are as follows:

		TRANSFERS OUT				
		General Fund	Lunch Fund	Capital Project		Total Transfers In
				QZAB Fund	PC Fund	
TRANSFERS IN	General Fund	\$-	\$45,000	\$-	\$-	\$45,000
	Debt Service QZAB Fund	58,841	-	87,657	-	146,498
	Debt Service PC Fund	134,867	-	-	4,845	139,712
	Total Transfers Out	<u>\$193,708</u>	<u>\$45,000</u>	<u>\$87,657</u>	<u>\$4,845</u>	<u>\$331,210</u>

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 M – 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 are subject to audit by

## **NOTE M – CONTINGENT LIABILITIES (Continued):**

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, participates 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 \$1,000,000 per occurrence of all claims. The School District also maintains an additional \$2,000,000 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 N – 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 is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2011, the foundation allowance was based on the 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 2010 - August 2011.

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 O – 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 \$28,717 during fiscal 2010-11 in revenues and expenditures for USDA commodities.

## **NOTE P – PROPERTY TAXES:**

The taxable value of real and personal property located in the School District for the 2010 tax year which represents approximately 50% of the estimated current value, totaled \$251,270,895 (\$136,640,448 designated as Homestead, \$102,898,347 designated as Non-Homestead, and \$11,732,100 designated as Commercial personal property). The total tax levy consists of 18.0000 mills on all non-homestead property (one mill is equal to \$1.00 per \$1,000 of taxable value), 6.0000 mills on all commercial personal property for the General Fund, and 0.5300 mills for debt service fund.

## **NOTE Q – 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 16.94% of covered compensation to the Plan through September 30, 2010, 19.41% for the month of October 2010, and 20.66% 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, 2011 was \$1,646,383 which consisted of \$1,260,798 from the School District and \$385,585 from employees electing the MIP option. These represent approximately 19.74% and 6.04% of total payroll, respectively. The School District's required and actual contributions to MPSERS for 2011, 2010 and 2009 were \$1,260,798; \$1,044,779; and \$1,065,787, respectively.

Payroll paid to employees covered by MPSERS for the year ended June 30, 2011 was approximately \$6,386,000. The School District's total payroll was approximately \$6,615,000.

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

**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 6.81% of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 for the month of October 2010, and 8.5% for the period from November 1, 2010 through June 30, 2011. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

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 R – SINGLE AUDIT:**

The District's audited financial statements report a total of \$1,821,969 in federal expenditures. As the amount is more than the single audit threshold of \$500,000, the District is therefore required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2011.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**GWINN AREA COMMUNITY SCHOOLS**

**General Fund**

**Budgetary Comparison Schedule**

**For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
<b>REVENUES:</b>					
Local sources	\$ 1,758,237	\$ 1,738,131	\$ 1,813,490	\$ (20,106)	\$ 75,359
State sources	7,876,592	8,195,787	8,052,928	319,195	(142,859)
Federal sources	1,307,097	1,379,314	1,383,169	72,217	3,855
Other	504,551	544,066	543,854	39,515	(212)
<b>TOTAL REVENUES</b>	<b>11,446,477</b>	<b>11,857,298</b>	<b>11,793,441</b>	<b>410,821</b>	<b>(63,857)</b>
<b>EXPENDITURES:</b>					
<b>Instruction:</b>					
Basic Programs	5,705,293	5,600,642	5,602,335	104,651	(1,693)
Added Needs	2,212,742	2,114,796	2,120,157	97,946	(5,361)
<b>Total Instruction</b>	<b>7,918,035</b>	<b>7,715,438</b>	<b>7,722,492</b>	<b>202,597</b>	<b>(7,054)</b>
<b>Supporting Services:</b>					
Pupil services	371,990	388,525	375,561	(16,535)	12,964
Instructional staff	214,882	210,718	205,068	4,164	5,650
General administration	335,345	324,505	320,051	10,840	4,454
School administration	804,113	737,682	720,216	66,431	17,466
Fiscal services	188,824	189,673	189,453	(849)	220
Operation and maintenance	955,138	931,447	936,850	23,691	(5,403)
Transportation	697,161	583,501	583,573	113,660	(72)
Central	217,421	252,157	247,037	(34,736)	5,120
Other	625	320,644	322,465	(320,019)	(1,821)
<b>Total Supporting Services</b>	<b>3,785,499</b>	<b>3,938,852</b>	<b>3,900,274</b>	<b>(153,353)</b>	<b>38,578</b>
<b>Community Services</b>	76,461	20,277	22,163	56,184	(1,886)
<b>Other</b>	-	-	-	-	-
<b>Capital Outlay</b>	-	72,391	70,285	(72,391)	2,106
<b>Debt Service - Interest</b>	-	13,572	13,572	(13,572)	-
<b>TOTAL EXPENDITURES</b>	<b>11,779,995</b>	<b>11,760,530</b>	<b>11,728,786</b>	<b>19,465</b>	<b>31,744</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(333,518)</b>	<b>96,768</b>	<b>64,655</b>	<b>430,286</b>	<b>(32,113)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Sale of property	-	4,036	40,122	4,036	36,086
Transfers in	61,000	45,000	45,000	(16,000)	-
Transfers out	(420,850)	(193,708)	(193,708)	227,142	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(359,850)</b>	<b>(144,672)</b>	<b>(108,586)</b>	<b>215,178</b>	<b>36,086</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(693,368)</b>	<b>(47,904)</b>	<b>(43,931)</b>	<b>645,464</b>	<b>3,973</b>
Fund Balance, July 1	2,195,164	2,195,164	2,195,164	-	-
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 1,501,796</b>	<b>\$ 2,147,260</b>	<b>\$ 2,151,233</b>	<b>\$ 645,464</b>	<b>\$ 3,973</b>

**OTHER SUPPLEMENTAL  
INFORMATION**

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Governmental Funds**

**Combining Balance Sheet**

**June 30, 2011**

	Special Revenue			
	<u>School Lunch Fund</u>	Debt Service	Capital Projects	<u>Total</u>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 138,885	\$ 64,640	\$ -	\$ 203,525
Investments	-	-	175,594	175,594
Accounts receivable	6,962	107	-	7,069
Due from other funds	-	-	-	-
Inventory	<u>3,859</u>	<u>-</u>	<u>-</u>	<u>3,859</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 149,706</u></u>	<u><u>\$ 64,747</u></u>	<u><u>\$ 175,594</u></u>	<u><u>\$ 390,047</u></u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,409	-	-	1,409
Due to other funds	<u>71,242</u>	<u>-</u>	<u>-</u>	<u>71,242</u>
<b>TOTAL LIABILITIES</b>	<u>72,651</u>	<u>-</u>	<u>-</u>	<u>72,651</u>
<b>FUND BALANCES:</b>				
Non-spendable	3,859	-	-	3,859
Restricted	73,196	64,747	175,594	313,537
Committed	-	-	-	-
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES</b>	<u>77,055</u>	<u>64,747</u>	<u>175,594</u>	<u>317,396</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 149,706</u></u>	<u><u>\$ 64,747</u></u>	<u><u>\$ 175,594</u></u>	<u><u>\$ 390,047</u></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, 2011**

	Special Revenue			
	School Lunch Fund	Debt Service	Capital Projects	Total
<b>REVENUES:</b>				
Local sources	\$ 141,140	\$ 119,948	\$ 729	\$ 261,817
State sources	29,468	24,096	-	53,564
Federal sources	438,800	-	-	438,800
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUES</b>	<b>609,408</b>	<b>144,044</b>	<b>729</b>	<b>754,181</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>				
School lunch activities	511,820	-	-	511,820
Capital Outlay	44,570	-	285,153	329,723
Debt service activities				
Principal	-	342,119	-	342,119
Interest and fees	-	121,138	-	121,138
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	<b>556,390</b>	<b>463,257</b>	<b>285,153</b>	<b>1,304,800</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>53,018</b>	<b>(319,213)</b>	<b>(284,424)</b>	<b>(550,619)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	286,210	-	286,210
Transfers out	(45,000)	-	(92,502)	(137,502)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(45,000)</b>	<b>286,210</b>	<b>(92,502)</b>	<b>148,708</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCE</b>	<b>8,018</b>	<b>(33,003)</b>	<b>(376,926)</b>	<b>(401,911)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, July 1	69,037	97,750	552,520	719,307
	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 77,055</b>	<b>\$ 64,747</b>	<b>\$ 175,594</b>	<b>\$ 317,396</b>
	<hr/>	<hr/>	<hr/>	<hr/>

**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, 2011**

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
School lunch activities	\$ 144,560	\$ 141,140	\$ (3,420)
State sources	28,047	29,468	1,421
Federal sources	<u>432,826</u>	<u>438,800</u>	<u>5,974</u>
<b>TOTAL REVENUES</b>	<u>605,433</u>	<u>609,408</u>	<u>3,975</u>
<b>EXPENDITURES:</b>			
School lunch activities:			
Salaries and fringe benefits	258,910	261,270	(2,360)
Purchased services	7,667	8,409	(742)
Supplies and materials and other expenses	247,009	242,141	4,868
Capital Outlay	<u>44,171</u>	<u>44,570</u>	<u>(399)</u>
<b>TOTAL EXPENDITURES</b>	<u>557,757</u>	<u>556,390</u>	<u>1,367</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	47,676	53,018	5,342
<b>OTHER FINANCING (USES):</b>			
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING (USES):</b>	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,676	8,018	5,342
Fund Balance, July 1	<u>69,037</u>	<u>69,037</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ 71,713</u></u>	<u><u>\$ 77,055</u></u>	<u><u>\$ 5,342</u></u>

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Debt Service Funds**

**Combining Balance Sheet**

**June 30, 2011**

	<u>Debt Service Fund</u>	<u>Debt Service QZAB Fund</u>	<u>Debt Service Performance Contract Fund</u>	<u>Debt Service QSCB Fund</u>	<u>Total</u>
<b>ASSETS:</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 64,640	\$ 64,640
Investments	-	-	-	-	-
Accounts receivable	-	-	-	107	107
	<u>-</u>	<u>-</u>	<u>-</u>	<u>107</u>	<u>107</u>
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,747</u>	<u>\$ 64,747</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>LIABILITIES:</b>					
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>					
Restricted	-	-	-	64,747	64,747
	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,747</u>	<u>64,747</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,747</u>	<u>\$ 64,747</u>

**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, 2011**

	Debt Service Fund	Debt Service QZAB Fund	Debt Service Performance Contract Fund	Debt Service QSCB Fund	Total
<b>REVENUES:</b>					
Local Sources	\$ -	\$ -	\$ -	\$ 119,948	\$ 119,948
State Sources	24,096	-	-	-	24,096
<b>TOTAL REVENUES</b>	<u>24,096</u>	<u>-</u>	<u>-</u>	<u>119,948</u>	<u>144,044</u>
<b>EXPENDITURES:</b>					
Debt service activities:					
Principal	20,958	125,447	85,000	110,714	342,119
Interest and fiscal charges	3,138	21,051	54,712	42,237	121,138
<b>TOTAL EXPENDITURES</b>	<u>24,096</u>	<u>146,498</u>	<u>139,712</u>	<u>152,951</u>	<u>463,257</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	(146,498)	(139,712)	(33,003)	(319,213)
<b>OTHER FINANCING SOURCES:</b>					
Transfers in	-	146,498	139,712	-	286,210
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>146,498</u>	<u>139,712</u>	<u>-</u>	<u>286,210</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	(33,003)	(33,003)
Fund Balance, July 1	-	-	-	97,750	97,750
<b>FUND BALANCE, JUNE 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,747</u>	<u>\$ 64,747</u>

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Capital Projects Funds**

**Combining Balance Sheet**

**June 30, 2011**

	<u>QZAB Fund</u>	<u>Performance Contract Fund</u>	<u>Qualified School Construction Bond Fund</u>	<u>Total</u>
<b>ASSETS:</b>				
Investments	\$ -	\$ -	\$ 175,594	\$ 175,594
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,594</u>	<u>\$ 175,594</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>				
Restricted	-	-	175,594	175,594
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,594</u>	<u>\$ 175,594</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, 2011**

	<u>QZAB Fund</u>	<u>Performance Contract Fund</u>	<u>Qualified School Construction Bond Fund</u>	<u>Total</u>
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Interest	-	-	729	729
<b>TOTAL REVENUES</b>	<u>-</u>	<u>-</u>	<u>729</u>	<u>729</u>
<b>EXPENDITURES:</b>				
Capital Outlay	-	-	285,153	285,153
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>285,153</u>	<u>285,153</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	-	(284,424)	(284,424)
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from borrowing	-	-	-	-
Transfers out	<u>(87,657)</u>	<u>(4,845)</u>	<u>-</u>	<u>(92,502)</u>
<b>TOTAL OTHER FINANCING (USES)</b>	<u>(87,657)</u>	<u>(4,845)</u>	<u>-</u>	<u>(92,502)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(87,657)	(4,845)	(284,424)	(376,926)
Fund Balance, July 1	<u>87,657</u>	<u>4,845</u>	<u>460,018</u>	<u>552,520</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,594</u>	<u>\$ 175,594</u>

## **COMPLIANCE SECTION**



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

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 Gwinn Area Community Schools, as of and for the year ended June 30, 2011, which collectively comprise Gwinn Area Community Schools' basic financial statements and have issued our report thereon dated October 7, 2011. 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 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 Gwinn Area Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gwinn Area Community Schools' internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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,

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan

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*.

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

October 7, 2011



**ANDERSON, TACKMAN & COMPANY, PLC**

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

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

Compliance

We have audited Gwinn Area Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gwinn Area Community Schools' major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Gwinn Area Community Schools is responsible for establishing and maintaining effective internal control over compliance with the compliance 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gwinn Area Community Schools' internal control over compliance.

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

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

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

October 7, 2011

GWINN AREA COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2011

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, 2010	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2011
<b>U.S. DEPARTMENT OF AGRICULTURE</b>							
Nutrition Cluster							
School Breakfast Program:							
<i>Passed through the Michigan Department of Education:</i>							
Breakfast 1977 & 1978	10.553	\$ 108,024	\$ 107,852	\$ -	\$ 108,024	\$ 108,024	\$ -
National School Lunch Program:							
<i>Direct award: U.S. Department of Agriculture:</i>							
Non-Cash Entitlement Commodities	10.555	26,173	27,361	-	26,173	26,173	-
Non-Cash Bonus Commodities	10.555	2,544	2,850	-	2,544	2,544	-
<i>Passed through the Michigan Department of Education:</i>							
Section 4 -Total Serving 1957 & 1958	10.555	39,794	40,338	-	39,794	39,794	-
Section 11 - Free and Reduced 1967 & 1968	10.555	252,168	246,124	-	252,168	252,168	-
Summer Food Service Program for Children	10.559	8,184	12,015	2,293	10,097	10,477	1,913
Total National School Lunch Program		328,863	328,688	2,293	330,776	331,156	1,913
Total Nutrition Cluster		436,887	436,540	2,293	438,800	439,180	1,913
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<b>436,887</b>	<b>436,540</b>	<b>2,293</b>	<b>438,800</b>	<b>439,180</b>	<b>1,913</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>							
Title I Cluster:							
<i>Passed through Michigan Department of Education:</i>							
Title I, Part A - Improving Basic Programs:							
101530 0910	84.010	467,381	437,819	140,904	-	140,904	-
111530 1011	84.010	473,404	-	-	433,270	317,050	116,220
ARRA Title I, Part A:							
101535 0910	84.389	250,113	134,868	31,120	-	31,120	-
111535 1011	84.389	115,245	-	-	115,245	87,536	27,709
Total Title I Cluster		1,306,143	572,687	172,024	548,515	576,610	143,929

GWINN AREA COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2011

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, 2010	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2011
Special Education Cluster:							
<i>Passed through Marquette-Alger Regional Educational Service Agency:</i>							
P.L. 94-142 Flow Through:							
100450 0910	84.027	\$ 30,283	\$ 28,770	\$ 8,906	\$ -	\$ 8,906	\$ -
110450 1011	84.027	30,152	-	-	28,239	28,239	-
Transition Grant:							
100490/TS	84.027	254	254	-	-	-	-
ARRA Flow Through:							
100455 0910	84.391	137,045	137,045	48,714	137,045	152,792	32,967
Total Special Education Cluster		<u>197,734</u>	<u>166,069</u>	<u>57,620</u>	<u>165,284</u>	<u>189,937</u>	<u>32,967</u>
Perkins:							
<i>Passed Through Delta-Schoolcraft Intermediate School District:</i>							
093520/90122	84.048	-	4,982	2,203	-	2,203	-
113520/11122	84.048	7,058	-	-	7,058	7,058	-
Total Perkins		<u>7,058</u>	<u>4,982</u>	<u>2,203</u>	<u>7,058</u>	<u>9,261</u>	<u>-</u>
Title VII, Indian Education:							
<i>Direct Award:</i>							
S060A091215	84.060	34,010	34,010	-	-	-	-
S060A102343	84.060	32,175	-	-	30,662	28,332	2,330
Total Title VII, Indian Education		<u>66,185</u>	<u>34,010</u>	<u>-</u>	<u>30,662</u>	<u>28,332</u>	<u>2,330</u>
Safe & Drug Free Schools:							
<i>Passed through Marquette-Alger Regional Educational Service Agency:</i>							
105860 0910	84.186	2,590	247	-	-	-	-
112860 1011	84.186	791	-	-	791	791	-
Total Safe & Drug Free Schools		<u>3,381</u>	<u>247</u>	<u>-</u>	<u>791</u>	<u>791</u>	<u>-</u>

GWINN AREA COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2011

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, 2010	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2011
Title II, Part D Cluster:							
<i>Passed through Michigan Department of Education</i>							
ARRA Title II, Part D Formula Grants:							
104295 0910	84.386	\$ 8,936	\$ 8,936	\$ 2,431	\$ -	\$ 2,431	\$ -
Total Title II, Part D Cluster		8,936	8,936	2,431	-	2,431	-
Title VI, Part B:							
<i>Passed through Michigan Department of Education</i>							
Title VI, Part B, Subpart 2 - Rural & Low-income Grant:							
100660 0910	84.358	34,178	34,178	15,838	-	15,838	-
110660 1011	84.358	32,189	-	-	32,189	24,724	7,465
Total Title VI, Part B		66,367	34,178	15,838	32,189	40,562	7,465
Title II, Part A:							
<i>Passed through Michigan Department of Education</i>							
Title II, Part A - Teacher/Principal Training and Recruiting:							
100520 0910	84.367	118,929	106,239	35,779	-	35,779	-
110520 1011	84.367	114,603	-	-	84,635	63,999	20,636
Total Title II, Part A		233,532	106,239	35,779	84,635	99,778	20,636
ARRA Education Stabilization Funds							
<i>Passed through Michigan Department of Education</i>							
102525 0910	84.394	380,867	317,376	94,620	63,491	158,111	-
112525 1011	84.394	153,509	-	-	153,509	153,509	-
Total ARRA Education Stabilization Funds		534,376	317,376	94,620	217,000	311,620	-
Education Jobs Funds							
<i>Passed through Michigan Department of Education</i>							
112545 1011	84.410A	289,392	-	-	289,392	289,392	-
Total Education Jobs Funds		289,392	-	-	289,392	289,392	-
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<b>2,713,104</b>	<b>1,244,724</b>	<b>380,515</b>	<b>1,375,526</b>	<b>1,548,714</b>	<b>207,327</b>

GWINN AREA COMMUNITY SCHOOLS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the year ended June 30, 2011

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, 2010	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2011
<b>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>							
<i>Passed through Marquette-Alger Regional Educational Service Agency:</i>							
LEA Medicaid Outreach	93.778	\$ 3,158	\$ -	\$ -	\$ 7,643	\$ 4,485	\$ 3,158
<b>TOTAL U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>		<b>3,158</b>	<b>-</b>	<b>-</b>	<b>7,643</b>	<b>4,485</b>	<b>3,158</b>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>							
<i>Passed through Marquette-Alger Regional Educational Service Agency:</i>							
Learn & Serve: MSBF-09-52200	94.004	-	-	-	-	-	-
<b>TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<b>\$ 3,153,149</b>	<b>\$ 1,681,264</b>	<b>\$ 382,808</b>	<b>\$ 1,821,969</b>	<b>\$ 1,992,379</b>	<b>\$ 212,398</b>

GWINN AREA COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2011

**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 Grant Auditor Report:		\$1,410,164
Plus: Payments not on Grant Auditor Report:		
Passed through M.A.R.E.S.A.	195,213	
D.S.I.S.D	9,261	
Title VII	28,332	
Food distribution commodities	<u>28,717</u>	261,523
Less: Deferred revenue at the beginning of the year:		
M.A.R.E.S.A.	57,620	
D.S.I.S.D	2,203	
Michigan Department of Education	320,692	
Department of Agriculture	<u>2,293</u>	(382,808)
Plus: Deferred revenue at the end of the year:		
M.A.R.E.S.A.	36,125	
D.S.I.S.D	-	
Michigan Department of Education	172,030	
Title VII	2,330	
Department of Agriculture	<u>1,913</u>	212,398

**NOTE D – SCHEDULE OF FEDERAL AWARDS (Continued):**

Plus: Amounts included on prior year's Grantor Auditor Report that were received by District after 6/30/10:

Title I Part A	\$140,904	
ARRA Title I Part A	31,120	
ARRA Title II Part D	2,431	
Title VI Part B	15,838	
Title II Part A	35,779	
ARRA Education Stabilization Fund	<u>94,620</u>	320,692

Less: Amounts not included on Grant Auditor Report that were received by District after 6/30/11

-

Rounding

-

PER THE SCHEDULE OF FEDERAL EXPENDITURES

\$1,821,969

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

Total Federal Revenue Sources reported in the financial statements:	\$1,821,969
Rounding	<u>-</u>
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	<u>\$1,821,969</u>

**GWINN AREA COMMUNITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year June 30, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Gwinn Area Community Schools.
2. There were no 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:

Program	CFDA #
Title I Cluster:	
Title I Part A	84.010
ARRA Title I Part A	84.389
Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program	10.559

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

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

NONE

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

NONE

**GWINN AREA COMMUNITY SCHOOLS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the year June 30, 2011**

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

## **COMMUNICATIONS SECTION**



**ANDERSON, TACKMAN & COMPANY, PLC**

**Certified Public Accountants**

*"A Regional Firm With Offices In Michigan And Wisconsin"*

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**Gwinn Area Community Schools**  
*Communications with Those Charged with Governance*  
*For the Year Ended June 30, 2011*

October 7, 2011

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, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 28, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for 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. As described in Note G to the financial statements, Gwinn Area Community Schools changed accounting policies related to governmental funds fund balance designations by adopting Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of accumulated depreciation and depreciation expense is based on historical costs and useful lives of the assets. Depreciation is calculated using the straight-line method. We evaluated the key factors and

assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accrued sick and vacation is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable 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.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 7, 2011.

#### *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

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

(Other Information in Documents Containing Audited Financial Statements)

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

The Uniform Budgeting and Accounting Act establishes budgeting requirements for districts and oversight requirements for the Michigan Department of Education (the "Department") as well as the Attorney General. The Department's interpretation of the Uniform Budgeting and Accounting Act (PA 621) evaluates General Fund budget violations at the total revenue level, total expenditure level, and total other financing sources (uses) level, rather than at the line item level.

Section 20 of the Uniform Budgeting and Accounting Act (MCL 140.440) requires the Department to take specific actions for districts that are not in compliance with the Act. For determining a violation of PA 621, the Department has established a one percent threshold. As such, a district is considered in violation of PA 621 in instances when total expenditures and/or total other financing sources (uses) has a negative variance between the final budget and actual greater than the one percent threshold. With regards to total revenue, a district is considered in violation of PA 621 if it has a negative variance between the final budget and actual greater than the one percent threshold *and* the result is a negative variance in the change in fund balance.

In the event of noncompliance, the Department is required to determine whether the district has reasonable procedures in place to detect situations of noncompliance, and, as a result, the Department will contact the district.

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, Tackman & Company, PLLC*  
Certified Public Accountants