



GIBRALTAR SCHOOL DISTRICT
FINANCIAL STATEMENTS AND
SINGLE AUDIT ACT COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2011

GIBRALTAR SCHOOL DISTRICT

For the Year Ended June 30, 2011

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GIBRALTAR SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

November 1, 2011

Board of Education
Gibraltar School District
Woodhaven, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **GIBRALTAR SCHOOL DISTRICT**, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Gibraltar School District, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparisons for the general fund 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 our report dated November 1, 2011, on our consideration of Gibraltar School District's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gibraltar School District's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Gibraltar School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note IV - G to the financial statements, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. This statement revised the classifications of fund balance presented in the District's governmental funds

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Gibraltar School District annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

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

Management's Discussion & Analysis (MD&A)

(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Other Supplemental Information

Single Audit Section

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (like bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the 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 School 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 reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the fiduciary for the funds held on behalf of others. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District is the trustee for the Special Purpose/Trust accounts. These accounts include donations or gifts designated for a specific purpose (i.e. Scholarships). It also acts as the custodial agent for the District's student activity funds.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole and over time, may serve a useful indicator of a government's financial position. Below is a summary of the School District's net assets as of June 30, 2011 and 2010.

District's Net Assets

| | Governmental Activities | |
|--|------------------------------------|-----------------------|
| | (in millions) | |
| | <u>2011</u> | <u>2010</u> |
| Assets | | |
| Current and other assets | \$ 12.6 | \$ 15.9 |
| Capital assets | 59.6 | 59.1 |
| Other assets | <u>.6</u> | <u>.6</u> |
| Total assets | <u>72.8</u> | <u>75.6</u> |
| Liabilities | | |
| Current liabilities | 4.7 | 5.5 |
| Long-term liabilities | <u>48.5</u> | <u>50.9</u> |
| Total liabilities | <u>53.2</u> | <u>56.4</u> |
| Net Asset | | |
| Invested in capital assets – net of related debt | 12.5 | 13.4 |
| Restricted | .6 | 1.5 |
| Unrestricted | <u>6.5</u> | <u>4.3</u> |
| Total net assets | <u>\$ 19.6</u> | <u>\$ 19.2</u> |

The increase in total assets and total liabilities at June 30, 2011 from June 30, 2010 is directly related to depreciation expense of the District's buildings, equipment and vehicles paid for through General Fund monies and the issuance of Building and Site Bonds, and the payment of scheduled annual principal and interest payments on bonded indebtedness. The School District's net assets were \$19.6 million at June 30, 2011. Capital assets, net of related debt totaling \$12.5 million, compares the original cost, less depreciation of the School District's capital assets, plus any unspent bond proceeds to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$6.5 million, was unrestricted.

The \$6.5 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Below is a summary of the School District's changes in net assets for the years ended June 30, 2011 and 2010.

District's Changes in Net Assets

| | Governmental Activities | |
|------------------------------------|------------------------------------|-----------------------|
| | (in millions) | |
| | <u>2011</u> | <u>2010</u> |
| Revenue: | | |
| Program revenue: | | |
| Charges for services | \$.8 | \$ 1.3 |
| Operating grants and contributions | 5.3 | 4.6 |
| General Revenue: | | |
| Property taxes | 8.3 | 7.8 |
| State school aid | 23.5 | 22.1 |
| Other | <u>1.3</u> | <u>1.3</u> |
| Total revenue | 39.2 | 37.4 |
| Expenses: | | |
| Instruction | 19.7 | 20.5 |
| Support services | 11.6 | 11.6 |
| Community services | | .4 |
| Athletics | .6 | .6 |
| Food service | 1.1 | 1.2 |
| Interest on long-term debt | 2.5 | 2.4 |
| Other | 1.3 | .5 |
| Unallocated depreciation | <u>2.0</u> | <u>2.2</u> |
| Total expenses | 38.8 | 39.4 |
| Change in net assets | .4 | (2.0) |
| Net assets, beginning of year | <u>19.2</u> | <u>21.2</u> |
| Net assets, end of year | <u>\$ 19.6</u> | <u>\$ 19.2</u> |

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$38.8 million. Certain activities were partially funded from those who benefited from the programs (\$0.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.3 million). We paid for the remaining “public benefit” portion of our governmental activities with \$8.3 million in taxes, \$23.5 million in state foundation allowance and special education, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$331,548.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District’s Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.9 million, which is a decrease of \$2.5 million from last year. The primary reasons for the change are as follows:

In the General Fund, our principal operating fund, the fund balance increased from \$5,162,546 to \$6,286,857. The change is mainly due to:

- The District continued to have a full day Young 5 and Kindergarten program. The increased costs and expenses were taken from the fund balance to fund the programs since there was no increase in state aid per pupil allocation for this change.
- An increase in the foundation allowance revenue was due to an increase in blended student enrollment over the 2009-2010 count. The District experienced an increase of 33 student FTE's. The per pupil allocation remained at \$7,645 per student for the second year but the state took a proration of \$170 per student or \$635,043 from the district's state aid allocation. The allocation was also reduced by \$429,963 which was offset by the ARRA stabilization monies received through the federal grant process.
- The School District is the DCTC consortium's fiscal agent for the Downriver High School program. This program decreased the fund balance by \$48,000. These monies are listed as a reserved part of General Fund balance, and cannot be used by the School District since it belongs to the Downriver High School program.
- The Education Jobs Grant (\$758,461) was used to recall or hire 13 certified staff and two full time media clerks. The entire grant was spent in 2010-11.
- The increase in retirement and FICA payments due to an increase in staff and their wages.
- The purchase of one special education bus. Three general education busses were ordered in 2011 but the district did not receive delivery until after July 1; therefore, \$205,500 of the fund equity has been assigned to pay for these busses.

General Fund balance is available to fund costs related to allowable school operating purposes. The General Fund subsidized the Athletic program by \$519,000 in 2010-11; the balance of the Athletic revenue is from ticket sales and miscellaneous income. Beginning with the 2010-11 school year, the Athletic program is now reported in the District's financial statements as part of the General Fund.

The Capital Projects Fund showed a net decrease of \$3,082,000 due to the purchase of technology equipment for schools and boiler renovation work done at many of the schools. The District applied for and was granted an extension for the use of the funds. All funds from the bond proceeds are to be expended by 12/31/11.

Our Special Revenue Fund for the cafeteria program showed a net decrease of approximately \$12,800. The District continued with the change to the menus by removing fried foods, removing snack carts from the elementary schools, and increasing salad and meal options at all levels.

Combined, the Debt Service Funds showed a fund balance decrease of \$530,036. Millage rates were maintained at a total of 5.10 mills and were adjusted for the individual Debt Service Funds fund balances. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year-end. Debt Service Funds fund balances are restricted since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted on June 7, 2011. A schedule showing the School District’s original and final budget amounts compared with amounts actually paid and received is provided with the basic financial statements.

There were revisions made to the 2010-2011 General Fund original budget. Budgeted revenues were increased due to changes in certain categorical revenue from the State and Federal Grants and an adjustment in foundation allowance payments due to the state using ARRA stabilization grant monies to fund a portion of the state aid payments. The combination of changes was a \$3.1 million increase to the original budget for revenue in total.

Budgeted expenditures were increased resulting from the School District’s revised operating plan due to the fluctuations in revenue, employee insurance premiums, employee retirement costs and hiring of staff. The expense budget was increased for property tax refunds due the increased amount of filings with the Michigan Tax Tribunal for SEV adjustments. The amount of transfers to other funds established in the amended budget was \$.5 million and represents support provided by the General Fund to other functions.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the School District had \$59.1 million (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. It includes a capital lease for laptop computers for all teaching staff, copiers for the buildings and building renovations, less depreciation.

In 2010-2011, work continued on renovations to the boiler systems in many of the schools. The Board also approved the purchase of 156 Interactive Smartboards and projector systems for the classrooms to be installed during the summer of 2011. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$48.2 million in bonds outstanding versus \$50.4 million in the previous year. The outstanding bonds consist of the following:

| | |
|--|-----------------------------|
| 2002 School Building and Site Bonds | \$ 1,905,000 |
| 2003 Refunding Bonds | 1,340,000 |
| 2004 Series II Building and Site Bonds | 21,365,000 |
| 2005 Refunding Bonds | 9,975,000 |
| 2007 Refunding Bonds | 5,660,000 |
| 2010 Refunding Bonds | <u>8,000,000</u> |
| Total | <u>\$ 48,245,000</u> |

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District’s boundaries. If the School District issues “Qualified Debt”, i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

Other obligations include accrued early retirement/severance incentives and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2011-2012 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2011-2012 fiscal year was changed to 10 percent and 90 percent of the February 2011 and September 2011 student counts, respectively. The 2011-2012 budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. With a known reduction loss of 17 FTE's due to the discontinuation of a shared time program at St. Mary's School in Rockwood, we estimated no increase in student count when preparing the budget. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Based on enrollment data at the start of the 2011-2012 school year, we anticipate that the fall student count will be more than the estimate of 3,735 used in creating the 2011-2012 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State adopted the State Aid bill by June 7, 2011 and the District estimated a per student allocation of \$7,050 for the 2011-2012 school year when developing the budget. This included a statewide reduction of \$470 per student plus the additional \$125 per student reduction due to the loss of the half of the Auto Alliance adjustment. This full allocation is based on the District receiving the 18 mills of Non-Homestead taxes each year. The School District successfully passed a millage renewal for ten years for the Non-Homestead taxes in December 2004. These mills are subject to the Headlee Rollback and since the District's State Equalized Value (SEV) increased faster than the inflation rate, it was necessary to ask the residents of the District in May, 2007 to approve authorization to levy up to an additional 3 mills. The election was successful and the district will be able to levy full 18 mills for the 2012 tax year (.179370 from the first millage and .063 from the second millage) on eligible properties. The Michigan Business Tax gives a tax exemption of 12 mills to commercial personal property and 18 mills for industrial personal property. This affects the amount of non-homestead taxes levied and collected in the 2011-2012 fiscal year.

In addition to a reduction in the state aid per pupil allocation, federally funded approved grants that the District had been receiving have expired. These grants included the Education Jobs grant, ARRA Title I, ARRA Idea and ARRA Education Stabilization Fund monies.

It is also important to remember that the State Legislature is continuing to work on state reforms that will directly affect the District budget for the fiscal year 2011-2012 and beyond. Public Acts 54 and 152 will affect the unionized staff with the expiration of the current contracts. The secretarial/clerical contract will expire on June 30, 2012 and the GEA teachers contract will expire in August, 2012. The others will not expire until June 2013 or later. The uncertainty in the Michigan economy as well as the U.S. economy will factor into the State's revenues and its ability to pay the allocation. The monies received will be needed to pay for the increases in salaries, additional staff hired or recalled after July 1st, insurance premiums, the state retirement program (increasing to 20.66% on 10/1/11 to 24.66%), and the cost increases for utility usage and gas for bus transportation. The Board of Education approved the 2011-12 budget using a significant amount of the fund equity to balance the budget due to the reduction in revenues and still maintain the Board approved programs.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Manager, 19370 Vreeland Road, Woodhaven, Michigan 48183.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

GIBRALTAR SCHOOL DISTRICT

Statement of Net Assets June 30, 2011

| | Governmental Activities |
|---|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 7,027,673 |
| Receivables | 5,570,838 |
| Prepaid items and other assets | 634,945 |
| Unamortized bond issuance costs | 397,423 |
| Capital assets not being depreciated | 1,335,895 |
| Capital assets being depreciated, net | <u>57,786,173</u> |
| Total assets | <u>72,752,947</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | 4,690,704 |
| Unearned revenue | 9,955 |
| Noncurrent liabilities: | |
| Due within one year | 2,580,998 |
| Due in more than one year | <u>45,892,210</u> |
| Total liabilities | <u>53,173,867</u> |
| Net assets | |
| Invested in capital assets, net of related debt | 12,505,568 |
| Restricted for: | |
| Debt service | 600,010 |
| Other purposes | 48,713 |
| Unrestricted | <u>6,424,789</u> |
| Total net assets | <u><u>\$ 19,579,080</u></u> |

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

GIBRALTAR SCHOOL DISTRICT

Statement of Activities For the Year Ended June 30, 2011

| <u>Functions / Programs</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> |
|--------------------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|
| <u>Expenses</u> | <u>Charges</u> | <u>Operating</u> | <u>Grants and</u> | <u>Revenue</u> |
| <u>Expenses</u> | <u>for Services</u> | <u>Contributions</u> | <u>Contributions</u> | <u>Revenue</u> |
| Governmental activities: | | | | |
| Instruction | \$ 19,659,898 | \$ 187,174 | \$ 4,710,066 | \$ (14,762,658) |
| Supporting services | 11,572,499 | - | - | (11,572,499) |
| Community service | 59,679 | - | - | (59,679) |
| Athletics | 563,834 | 97,307 | - | (466,527) |
| Food service | 1,136,998 | 521,227 | 595,185 | (20,586) |
| Interest on long-term debt | 2,486,605 | - | - | (2,486,605) |
| Payments to other districts | 494,495 | - | - | (494,495) |
| Unallocated impairment loss | 804,510 | - | - | (804,510) |
| Unallocated depreciation | 2,022,769 | - | - | (2,022,769) |
| Total | <u>\$ 38,801,287</u> | <u>\$ 805,708</u> | <u>\$ 5,305,251</u> | <u>(32,690,328)</u> |
| General revenues: | | | | |
| Property taxes | | | | 8,278,313 |
| State aid unrestricted | | | | 23,482,269 |
| Receipts from other districts | | | | 1,243,133 |
| Unrestricted investment earnings | | | | 18,161 |
| Total general revenues | | | | <u>33,021,876</u> |
| Change in net assets | | | | 331,548 |
| Net assets, beginning of year | | | | <u>19,247,532</u> |
| Net assets, end of year | | | | <u>\$ 19,579,080</u> |

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

FUND FINANCIAL STATEMENTS

GIBRALTAR SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2011

| ASSETS | General | Capital Project Fund | Nonmajor Funds | Totals |
|--|----------------------|----------------------------|---------------------|----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 3,652,443 | \$ 2,363,261 | \$ 1,011,969 | \$ 7,027,673 |
| Taxes receivable | 173,660 | - | 128,511 | 302,171 |
| Accounts receivable | 185,014 | - | 2,163 | 187,177 |
| Due from other funds | 1,354,083 | - | 1,245 | 1,355,328 |
| Due from other governments | 5,053,627 | - | 27,863 | 5,081,490 |
| Inventory | - | - | 13,436 | 13,436 |
| Prepaid expenditures | 621,509 | - | - | 621,509 |
| Total assets | \$ 11,040,336 | \$ 2,363,261 | \$ 1,185,187 | \$ 14,588,784 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 148,206 | \$ 457,469 | \$ 22,001 | \$ 627,676 |
| Salaries and related liabilities | 3,347,281 | - | - | 3,347,281 |
| Due to other funds | 896,331 | 308,575 | 150,422 | 1,355,328 |
| Due to other governments | 351,706 | - | - | 351,706 |
| Deferred revenue | 9,955 | - | - | 9,955 |
| Total liabilities | 4,753,479 | 766,044 | 172,423 | 5,691,946 |
| Fund balances | | | | |
| Nonspendable | 621,509 | - | 13,436 | 634,945 |
| Restricted | 302,789 | 1,597,217 | 999,328 | 2,899,334 |
| Assigned | 355,896 | - | - | 355,896 |
| Unassigned | 5,006,663 | - | - | 5,006,663 |
| Total fund balances | 6,286,857 | 1,597,217 | 1,012,764 | 8,896,838 |
| Total liabilities and fund balances | \$ 11,040,336 | \$ 2,363,261 | \$ 1,185,187 | \$ 14,588,784 |

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

GIBRALTAR SCHOOL DISTRICT

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets June 30, 2011

| | |
|--|------------------------------------|
| Fund balances - total governmental funds | \$ 8,896,838 |
| Amounts reported for <i>governmental activities</i> 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. | |
| Add - capital assets | 87,453,369 |
| Deduct - accumulated depreciation | (28,331,301) |
| Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | |
| Deduct - bonds payable, net | (47,937,433) |
| Deduct - capital lease payable | (276,284) |
| Deduct - accrued interest payable | (364,041) |
| Add - unamortized bond issuance costs | 397,423 |
| Deduct - long-term portion of compensated absences | (259,491) |
| Net assets of governmental activities | <u><u>\$ 19,579,080</u></u> |

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

GIBRALTAR SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2011

| | General | Capital Project Funds | Nonmajor Funds | Totals |
|---|---------------------|-----------------------------|---------------------|---------------------|
| Revenue | | | | |
| Local sources | \$ 4,840,570 | \$ - | \$ 4,583,241 | \$ 9,423,811 |
| State sources | 24,685,955 | - | 62,955 | 24,748,910 |
| Federal sources | 3,171,457 | - | 532,230 | 3,703,687 |
| Total revenue | 32,697,982 | - | 5,178,426 | 37,876,408 |
| Expenditures | | | | |
| Current | | | | |
| Education | | | | |
| Instruction | 20,009,835 | - | - | 20,009,835 |
| Supporting services | 11,485,478 | - | - | 11,485,478 |
| Community services | 59,679 | - | - | 59,679 |
| Athletics | 609,709 | - | - | 609,709 |
| Food service | - | - | 1,137,387 | 1,137,387 |
| Debt service | | | | |
| Principal repayment | 135,398 | - | 2,135,000 | 2,270,398 |
| Interest and fiscal charges | 14,091 | - | 2,275,382 | 2,289,473 |
| Other | - | - | 181,668 | 181,668 |
| Capital outlay | - | 3,095,567 | - | 3,095,567 |
| Total expenditures | 32,314,190 | 3,095,567 | 5,729,437 | 41,139,194 |
| Revenue (under) expenditures | 383,792 | (3,095,567) | (551,011) | (3,262,786) |
| Other financing sources (uses) | | | | |
| Investment gain | - | 13,294 | - | 13,294 |
| Payments from other districts | 1,243,133 | - | - | 1,243,133 |
| Payments to other districts | (494,495) | - | - | (494,495) |
| Transfers in | - | - | 8,119 | 8,119 |
| Transfers out | (8,119) | - | - | (8,119) |
| Total other financing sources | 740,519 | 13,294 | 8,119 | 761,932 |
| Net change in fund balances | 1,124,311 | (3,082,273) | (542,892) | (2,500,854) |
| Fund balances, beginning of year | 5,162,546 | 4,679,490 | 1,555,656 | 11,397,692 |
| Fund balances, end of year | \$ 6,286,857 | \$ 1,597,217 | \$ 1,012,764 | \$ 8,896,838 |

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

GIBRALTAR SCHOOL DISTRICT

Reconciliation of the Statement of Revenue, Expenditures and Change in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2011

| | |
|--|----------------|
| Net change in fund balances - total governmental funds | \$ (2,500,854) |
|--|----------------|

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 and reported as depreciation expense.

| | |
|---|-------------|
| Add - capital outlay | 3,256,691 |
| Deduct - depreciation expense | (2,022,769) |
| Deduct - impairment loss | (804,510) |
| Deduct - loss on disposal of capital assets | (41,854) |

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|---|-----------|
| Add - principal payments on long-term liabilities | 2,270,398 |
| Add - amortization of bond premium | 44,412 |
| Deduct - amortization of deferred loss on refunding | (75,067) |
| Deduct - amortization of bond costs | (36,055) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|--|---------|
| Add - decrease in accrued interest payable on bonds | 15,191 |
| Add - decrease in the accrual for compensated absences | 225,965 |

| | |
|--|---------------------------------|
| Change in net assets of governmental activities | <u><u>\$ 331,548</u></u> |
|--|---------------------------------|

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

GIBRALTAR SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual General Fund For the Year Ended June 30, 2011

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--------------------------------------|--------------------|-------------------|-------------------|---------------------------------|
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 3,919,336 | \$ 4,264,336 | \$ 4,210,880 | \$ (53,456) |
| Earnings on investments and deposits | 7,000 | 3,600 | 3,010 | (590) |
| Other local revenues | 735,246 | 556,742 | 626,680 | 69,938 |
| Total revenue from local sources | 4,661,582 | 4,824,678 | 4,840,570 | 15,892 |
| State sources | | | | |
| State school aid - unrestricted | 21,948,810 | 23,208,799 | 23,482,269 | 273,470 |
| Special education | 957,441 | 777,579 | 777,579 | - |
| At risk | 467,225 | 480,000 | 277,941 | (202,059) |
| Other | 108,800 | 147,050 | 148,166 | 1,116 |
| Total revenue from state sources | 23,482,276 | 24,613,428 | 24,685,955 | 72,527 |
| Federal sources | | | | |
| IDEA | 1,113,000 | 1,304,262 | 1,378,664 | 74,402 |
| Title I | 286,906 | 470,136 | 373,387 | (96,749) |
| Medicaid reimbursement | 15,000 | 15,000 | 3,859 | (11,141) |
| Other | 115,012 | 1,528,825 | 1,415,547 | (113,278) |
| Total revenue from federal sources | 1,529,918 | 3,318,223 | 3,171,457 | (146,766) |
| Total revenue | 29,673,776 | 32,756,329 | 32,697,982 | (58,347) |

continued

GIBRALTAR SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued) General Fund For the Year Ended June 30, 2011

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under) Final Budget</u> |
|----------------------------|----------------------------|-------------------------|-------------------|--|
| Expenditures | | | | |
| Instruction | | | | |
| Basic Programs | | | | |
| Elementary | \$ 7,700,475 | \$ 7,846,890 | \$ 7,678,595 | \$ (168,295) |
| Middle/Junior High | 3,551,710 | 3,647,032 | 3,627,098 | (19,934) |
| High School | 4,593,983 | 4,619,418 | 4,541,902 | (77,516) |
| Pre-School | 89,947 | 116,748 | 107,647 | (9,101) |
| Summer School | 95,352 | 74,330 | 40,069 | (34,261) |
| Added Needs | | | | |
| Special education | 2,598,993 | 2,516,637 | 2,481,244 | (35,393) |
| Compensatory education | 513,811 | 540,209 | 438,464 | (101,745) |
| Vocational education | 982,755 | 1,110,157 | 1,094,816 | (15,341) |
| Total instruction | <u>20,127,026</u> | <u>20,471,421</u> | <u>20,009,835</u> | <u>(461,586)</u> |
| Supporting Services | | | | |
| Pupil | | | | |
| Guidance services | 338,639 | 466,987 | 445,626 | (21,361) |
| Health services | 99,950 | 79,425 | 65,019 | (14,406) |
| Psychological | 72,531 | 85,638 | 86,158 | 520 |
| Speech | 432,797 | 465,101 | 441,448 | (23,653) |
| Social work | 97,008 | 129,637 | 131,996 | 2,359 |
| Other pupil | 252,555 | 272,150 | 247,772 | (24,378) |
| Instructional staff | | | | |
| Improvement of instruction | 444,076 | 249,255 | 189,786 | (59,469) |
| Library | 241,719 | 390,933 | 379,063 | (11,870) |
| Technology and media | 29,984 | 173,829 | 128,974 | (44,855) |
| Supervisors and directors | 119,673 | 125,724 | 101,656 | (24,068) |
| General Administration: | | | | |
| Board of Education | 113,824 | 122,265 | 71,562 | (50,703) |
| Executive Administration | 298,741 | 297,570 | 283,584 | (13,986) |
| School Administration | 2,316,127 | 2,300,145 | 2,252,689 | (47,456) |

continued

GIBRALTAR SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Concluded) General Fund For the Year Ended June 30, 2011

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| Expenditures, continued | | | | |
| Supporting Services, continued | | | | |
| Business Services | | | | |
| Fiscal services | \$ 421,922 | \$ 411,886 | \$ 381,790 | \$ (30,096) |
| Other business services | 195,210 | 306,885 | 304,306 | (2,579) |
| Operations and maintenance | 4,324,872 | 4,089,342 | 3,868,249 | (221,093) |
| Pupil transportation | 1,759,587 | 2,010,337 | 1,622,343 | (387,994) |
| Central staff | 615,624 | 624,517 | 483,457 | (141,060) |
| Total supporting services | 12,174,839 | 12,601,626 | 11,485,478 | (1,116,148) |
| Community Services | 355,390 | 82,897 | 59,679 | (23,218) |
| Athletics | 611,476 | 644,653 | 609,709 | (34,944) |
| Debt Service | | | | |
| Payment on notes | - | - | 135,398 | 135,398 |
| Interest payment on notes | - | - | 14,091 | 14,091 |
| Total debt service | - | - | 149,489 | 149,489 |
| Total expenditures | 33,268,731 | 33,800,597 | 32,314,190 | (1,486,407) |
| Revenue (under) expenditures | (3,594,955) | (1,044,268) | 383,792 | 1,428,060 |
| Other financing sources (uses) | | | | |
| Payments from other districts | 1,253,950 | 1,234,910 | 1,243,133 | 8,223 |
| Payments to other districts | (516,900) | (490,171) | (494,495) | (4,324) |
| Transfer out | (31,744) | (99,222) | (8,119) | 91,103 |
| Total other financing sources | 705,306 | 645,517 | 740,519 | 95,002 |
| Net change in fund balance | (2,889,649) | (398,751) | 1,124,311 | 1,523,062 |
| Fund balance, beginning of year | 5,162,546 | 5,162,546 | 5,162,546 | - |
| Fund balance, end of year | \$ 2,272,897 | \$ 4,763,795 | \$ 6,286,857 | \$ 1,523,062 |

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

GIBRALTAR SCHOOL DISTRICT

Statement of Fiduciary Net Assets All Fiduciary Funds June 30, 2011

| | <u>Private Purpose Trust Funds</u> | <u>Agency Fund</u> |
|--------------------------------------|--|------------------------|
| Assets | | |
| Cash and cash equivalents | <u>\$ 45,374</u> | <u>\$ 201,454</u> |
| Liabilities | | |
| Due to student groups and activities | <u>-</u> | <u>\$ 201,454</u> |
| Net assets | | |
| Unrestricted | <u>\$ 45,374</u> | |

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

GIBRALTAR SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets Private Purpose Trust Fund For the Year Ended June 30, 2011

| | |
|--------------------------------------|-------------------------|
| Revenue | |
| Local sources | |
| Earnings on investments | \$ 19 |
| Contributions | <u>5,966</u> |
| Total revenue | 5,985 |
| Expenses | |
| Scholarships | <u>6,363</u> |
| Change in net assets | (378) |
| Net assets, beginning of year | <u>45,752</u> |
| Net assets, end of year | <u><u>\$ 45,374</u></u> |

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

NOTES to the FINANCIAL STATEMENTS

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Gibraltar School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended 2011.

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds use the accrual basis of accounting but do not use the economic resource measurement focus.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

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

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

The District reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The capital project fund accounts for the construction as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by two general obligation unlimited tax bond issues.

Additionally, the District reports the following fund types:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The District's special revenue funds include the food service fund. Any operating deficit generated by these activities is the responsibility of the general fund.

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The fiduciary funds are assets held by the District in a trustee capacity or as an agent on behalf of others. The District has two fiduciary funds, which include the private-purpose trust and the student activities agency fund. The private-purpose trust includes contributions received by the District to be awarded in the form of scholarships. The student activities agency fund is used to account for transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

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

The effect of interfund activity has been eliminated from the district-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

The District's investment policy allows for the following types of investments.

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- (b) Certificates of deposit insured by a State or national bank, organized and authorized to operate in this State or certificates of deposits issued by a State or Federal savings and loan association, organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Surplus funds investment pools under P.A. 1982, No. 367.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

3. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Land improvements | 20-25 |
| Buildings and improvements | 50 |
| Furniture and equipment | 5-10 |
| Licensed vehicles | 5-12 |

5. *Compensated absences*

The liability for compensated absences reported in the district-wide statements consists of accrued sick time and severance pay. A liability for these amounts is reported in governmental funds only if they have matured, such as for employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

6. *Long-term obligations*

In the district-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received in debt issuances are reported as other financing sources and/or uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

7. *Fund equity*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

B. Excess of expenditures over appropriations

During the year, the District incurred expenditures in certain budgeted funds which were in excess of amounts appropriated as follows:

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Expenditures</u> | <u>Budget Variance</u> |
|-----------------------------|----------------------------|-------------------------|--------------------------------|----------------------------|
| General Fund: | | | | |
| Pupil: | | | | |
| Psychological | \$ 72,531 | \$ 85,638 | \$ 86,158 | \$ 520 |
| Social work | 97,008 | 129,637 | 131,996 | 2,359 |
| Debt service: | | | | |
| Payments on notes | - | - | 135,398 | 135,398 |
| Interest payments on notes | - | - | 14,091 | 14,091 |
| Payments to other districts | 516,900 | 490,171 | 494,495 | 4,324 |

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

| | |
|--------------------------------|----------------------------|
| Statement of net assets | |
| Cash and cash equivalents | \$ 7,027,673 |
| Fiduciary funds | |
| Cash and cash equivalents | <u>246,828</u> |
| | <u>\$ 7,274,501</u> |
| | |
| Cash on hand | \$ 100 |
| Deposits | 3,392,953 |
| Investments | <u>3,881,448</u> |
| | <u>\$ 7,274,501</u> |

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> |
|----------------------------|-----------------|---------------------|---------------|
| Michigan Liquid Asset Fund | n/a | \$ 3,001,192 | S&P - AAAm |
| Money market funds | n/a | <u>880,256</u> | n/a |
| Total investments | | <u>\$ 3,881,448</u> | |

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

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. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end \$3,297,567 of the District's bank balance of \$3,751,825 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

| | General | Other Governmental Funds | Total |
|----------------------------|---------------------|---|---------------------|
| Accounts receivable | \$ 185,014 | \$ 2,163 | \$ 187,177 |
| Taxes receivable | 173,660 | 128,511 | 302,171 |
| Due from other governments | 5,053,627 | 27,863 | 5,081,490 |
| | \$ 5,412,301 | \$ 158,537 | \$ 5,570,838 |

C. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2011 is as follows:

| | Due From | Due To |
|-----------------------------|---------------------|---------------------|
| General fund | \$ 1,354,083 | \$ 896,331 |
| Capital projects fund | - | 308,575 |
| Nonmajor governmental funds | 1,245 | 150,422 |
| | \$ 1,355,328 | \$ 1,355,328 |

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily 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 composition of interfund transfers for the year ended is as follows:

| | Transfers In |
|----------------------|----------------------------|
| Transfers Out | Non-Major Funds |
| General Fund | \$ 8,119 |

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2011, the District transferred funds from the general fund to subsidize the food service fund.

D. Capital assets

The following is a summary of capital asset activity for the year ended June 30, 2011:

| | Beginning Balance | Additions | Impairments | Deletions | Ending Balance |
|--|-----------------------------|----------------------------|--------------------------|-------------------------|-----------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 401,016 | \$ - | \$ - | \$ - | \$ 401,016 |
| Construction in progress | - | 934,879 | - | - | 934,879 |
| Total capital assets not being depreciated | <u>401,016</u> | <u>934,879</u> | <u>-</u> | <u>-</u> | <u>1,335,895</u> |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 75,683,778 | 825,923 | 1,148,851 | - | 75,360,850 |
| Equipment and furniture | 7,662,378 | 1,414,134 | - | 121,358 | 8,955,154 |
| Vehicles and buses | 1,719,715 | 81,755 | - | - | 1,801,470 |
| Total capital assets being depreciated | <u>85,065,871</u> | <u>2,321,812</u> | <u>1,148,851</u> | <u>121,358</u> | <u>86,117,474</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 19,817,953 | 1,432,230 | 344,341 | - | 20,905,842 |
| Equipment and furniture | 5,540,018 | 540,348 | - | 79,504 | 6,000,862 |
| Vehicles and buses | 1,374,406 | 50,191 | - | - | 1,424,597 |
| Total accumulated depreciation | <u>26,732,377</u> | <u>2,022,769</u> | <u>344,341</u> | <u>79,504</u> | <u>28,331,301</u> |
| Total capital assets being depreciated, net | <u>58,333,494</u> | <u>299,043</u> | <u>804,510</u> | <u>41,854</u> | <u>57,786,173</u> |
| Governmental activities capital assets, net | <u>\$ 58,734,510</u> | <u>\$ 1,233,922</u> | <u>\$ 804,510</u> | <u>\$ 41,854</u> | <u>\$ 59,122,068</u> |

Depreciation expense of \$2,022,769 was charged to the function “unallocated depreciation”, and was not allocated to other functions, as the District considers its assets to impact multiple activities and allocation is not practical.

Impairment expense of \$804,510 was charged to the function “unallocated impairment loss”.

Asset Impairment

In accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. The fair values of School District buildings identified for closure were estimated, and the book values were adjusted if the fair value was lower than the net book value. Assets with a carrying value of approximately \$1.1 million are considered to be idle at year end.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

E. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

| | General | Capital Projects Fund | Other Governmental Funds | Total |
|------------------------------------|---------------------|--------------------------------------|---|---------------------|
| Accounts payable | \$ 148,206 | \$ 457,469 | \$ 22,001 | \$ 627,676 |
| Salaries and related liabilities | 3,347,281 | - | - | 3,347,281 |
| Due to other governments | 351,706 | - | - | 351,706 |
| | \$ 3,847,193 | \$ 457,469 | \$ 22,001 | 4,326,663 |
| Accrued interest on long-term debt | | | | 364,041 |
| Governmental activities | | | | \$ 4,690,704 |

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2011:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Governmental activities | | | | | |
| General obligation bonds | \$ 50,380,000 | \$ - | \$ 2,135,000 | \$ 48,245,000 | \$ 2,215,000 |
| Less: | | | | | |
| Unamortized (discount) and premium | 733,916 | - | 44,412 | 689,504 | - |
| Deferred loss on refunding | (1,072,138) | - | (75,067) | (997,071) | - |
| Capital lease | 411,682 | - | 135,398 | 276,284 | 141,191 |
| Compensated absences | 485,456 | 4,305 | 230,270 | 259,491 | 224,807 |
| | \$ 50,938,916 | \$ 4,305 | \$ 2,470,013 | \$ 48,473,208 | \$ 2,580,998 |

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

Bonds payable at June 30, 2011, are comprised of the following issues:

General Obligation Bonds:

| | |
|---|-----------------------------|
| Refunding Bonds, Series 2003 – Unlimited Tax General Obligation - \$4,305,000 refunding bonds, installments of \$315,000 to \$590,000 from May 1, 2014 through May 1, 2017, interest at 3.0% to 3.70% | \$ 1,340,000 |
| 2002 School Building and Site Bonds – Unlimited Tax General Obligation – \$21,440,000 term bonds due in annual installments of \$375,000 to \$1,200,000 from May 1, 2005 through May 1, 2025, interest at 3.25% to 5.50%. | 1,905,000 |
| 2004 School Building and Site Bonds – Unlimited Tax General Obligation – \$32,610,000 term bonds due in annual installments of \$575,000 to \$1,850,000 from May 1, 2005 through May 1, 2028, interest at 2.40% to 5.00%. | 21,365,000 |
| Refunding Bonds, Series 2005 – Unlimited Tax General Obligation – \$10,280,000 term bonds due in annual installments of \$50,000 to \$1,255,000 from May 1, 2006 through May 1, 2022, interest at 3.625% to 5.0%. | 9,975,000 |
| 2006 Building and Site Refunding Bonds - \$5,725,000 term bonds due in annual installments of \$15,000 to \$1,220,000 through May 1, 2028, interest at 3.45% to 4.125%. | 5,660,000 |
| Refunding Bond, Series 2007 - Unlimited Tax General Obligation - \$8,000,000 term bonds due in annual installments of \$25,000 to \$1,845,000 through May 1, 2028; interest at 4.125% to 4.250%. | <u>8,000,000</u> |
| | <u>\$ 48,245,000</u> |

Advance Refundings

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets. The balance of defeased bonds outstanding as of June 30, 2011 was \$22,810,000, which represents amounts placed in escrow as part of the 2003, 2005, 2006 and 2007 debt refundings.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>Fiscal Year</u> | <u>Principle Due</u> | <u>Interest Due</u> | <u>Total</u> |
|------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2012 | \$ 2,215,000 | \$ 2,184,251 | \$ 4,399,251 |
| 2013 | 2,300,000 | 2,087,507 | 4,387,507 |
| 2014 | 2,400,000 | 1,986,264 | 4,386,264 |
| 2015 | 2,500,000 | 1,889,715 | 4,389,715 |
| 2016 | 2,625,000 | 1,764,945 | 4,389,945 |
| 2017-2021 | 14,855,000 | 6,814,938 | 21,669,938 |
| 2021-2026 | 15,330,000 | 3,288,768 | 18,618,768 |
| 2027-2028 | 6,020,000 | 377,448 | 6,397,448 |
| | <u>\$ 48,245,000</u> | <u>\$ 20,393,836</u> | <u>\$ 68,638,836</u> |

The capital lease obligation is for copiers and laptops. The copier lease requires quarterly installments of \$20,213 (including interest) to be paid beginning July 2008 and ending April 2013. There are two separate laptop leases. One requires monthly installments of \$5,534 (including interest) to be paid beginning May 2009 and ending April 2013. The other requires monthly installments of \$263 (including interest) to be paid beginning October 2009 and ending February 2013.

Annual debt service requirements to maturity for capital leases are as follows:

| <u>Year Ended</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total</u> |
|-----------------------|--------------------------|-------------------------|--------------------------|
| 2012 | \$ 141,191 | \$ 9,230 | \$ 150,421 |
| 2013 | 135,093 | 3,208 | 138,301 |
| | <u>\$ 276,284</u> | <u>\$ 12,438</u> | <u>\$ 288,722</u> |

Short-term debt activity for the year ended June 30, 2011, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--------------------------|------------------------------|--------------------|----------------------------|---------------------------|
| Governmental Activities: | | | | |
| State Aid Notes | <u>\$ 1,000,000</u> | <u>\$ -</u> | <u>\$ 1,000,000</u> | <u>\$ -</u> |

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

G. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District. Also, as is the case with other entities, the District faces exposure from potential claims and legal proceedings involving various matters. There are proceedings which have been asserted as of June 30, 2011. Management believes that any adverse ruling against the District, if any, would not have a significant impact on the financial position of the District.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance to satisfy any claims related to general liability, vehicle liability, property and casualty, athletic participation, employee health and accident and errors, and omissions. The District participates in M.E.S.S.A. for teacher's health care. The shared risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the Cities of Gibraltar, Flat Rock, Rockwood, Woodhaven, and Brownstown Township on July 1, of each fiscal year. All levies become delinquent on February 14. The Delinquent Tax Revolving Funds of Wayne County advance delinquent real taxes to the District.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (“MPSERS”), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan (“MIP”) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rates for the year ended June 30, 2011 as a percentage of payroll range from 16.94 to 20.66 percent for MIP members and 15.44 to 19.16 percent for Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District’s contributions to MPSERS under all retirement plans for the years ended June 30, 2011, 2010, and 2009 were \$3,581,123, \$3,000,813, and \$2,931,442, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance included as part of the District’s total monthly contribution to the pension plan discussed above.

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

Pension recipients are eligible for fully paid (self only, additional charges apply to dependent coverage) Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Bonded construction cost

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For the capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code, and the applicable sections of the revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

E. Subsequent event

The District borrowed \$2,500,000 on State aid notes due on August 20, 2012 for cash flow purposes.

F. Net assets invested in capital assets, net of related debt

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

| | |
|--|------------------------------------|
| Capital assets, net | \$ 59,122,068 |
| Bonds payable, net | (47,937,433) |
| Capital lease payable | (276,284) |
| Unspent bond proceeds | <u>1,597,217</u> |
| Invested in capital assets, net of related debt | <u><u>\$ 12,505,568</u></u> |

GIBRALTAR SCHOOL DISTRICT

Notes to the Financial Statements

G. Fund balances – governmental funds

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is presented as follows:

| | General | Capital Projects Fund | Nonmajor Funds | Total |
|----------------------------|---------------------|-----------------------------|---------------------|---------------------|
| Nonspendable: | | | | |
| Inventory | \$ - | \$ - | \$ 13,436 | \$ 13,436 |
| Prepays | 621,509 | - | - | 621,509 |
| Total nonspendable | 621,509 | - | 13,436 | 634,945 |
| Restricted: | | | | |
| Downriver Consortium | 302,789 | - | - | 302,789 |
| Bonded capital projects | - | 1,597,217 | - | 1,597,217 |
| Food service | - | - | 35,277 | 35,277 |
| Bonded debt service | - | - | 964,051 | 964,051 |
| Total restricted | 302,789 | 1,597,217 | 999,328 | 2,899,334 |
| Assigned: | | | | |
| Purchase of busses | 205,500 | - | - | 205,500 |
| Lease payments for copiers | 78,653 | - | - | 78,653 |
| Lease payments for laptops | 56,435 | - | - | 56,435 |
| Severance payments | 15,308 | - | - | 15,308 |
| | 355,896 | - | - | 355,896 |
| Unassigned | 5,006,663 | - | - | 5,006,663 |
| Total fund balances | \$ 6,286,857 | \$ 1,597,217 | \$ 1,012,764 | \$ 8,896,838 |

* * * * *

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS

GIBRALTAR SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

| ASSETS | Special Revenue | Debt Service | Totals |
|--------------------------------------|--------------------|-------------------|---------------------|
| | Food Service | | |
| Assets | | | |
| Cash and cash equivalents | \$ 177,087 | \$ 834,882 | \$ 1,011,969 |
| Taxes receivable | - | 128,511 | 128,511 |
| Accounts receivable | 2,163 | - | 2,163 |
| Due from other funds | - | 1,245 | 1,245 |
| Due from other governmental units | 27,863 | - | 27,863 |
| Inventory | 13,436 | - | 13,436 |
| | \$ 220,549 | \$ 964,638 | \$ 1,185,187 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | \$ 22,001 | \$ - | \$ 22,001 |
| Due to other funds | 149,835 | 587 | 150,422 |
| | 171,836 | 587 | 172,423 |
| Fund balances | | | |
| Nonspendable | 13,436 | - | 13,436 |
| Restricted | 35,277 | 964,051 | 999,328 |
| | 48,713 | 964,051 | 1,012,764 |
| | \$ 220,549 | \$ 964,638 | \$ 1,185,187 |

GIBRALTAR SCHOOL DISTRICT

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2011

| | Special Revenue | | |
|---|----------------------------|-------------------|---------------------|
| | Food Service | | |
| Revenue | | | |
| Local sources | \$ 521,227 | \$ 4,062,014 | \$ 4,583,241 |
| State sources | 62,955 | - | 62,955 |
| Federal sources | 532,230 | - | 532,230 |
| Total revenue | <u>1,116,412</u> | <u>4,062,014</u> | <u>5,178,426</u> |
| Expenditures | | | |
| Current - | | | |
| Food service | 1,137,387 | - | 1,137,387 |
| Debt service: | | | |
| Principal repayment | - | 2,135,000 | 2,135,000 |
| Interest and fiscal charges | - | 2,275,382 | 2,275,382 |
| Other | - | 181,668 | 181,668 |
| Total expenditures | <u>1,137,387</u> | <u>4,592,050</u> | <u>5,729,437</u> |
| Revenue under expenditures | (20,975) | (530,036) | (551,011) |
| Other financing sources | | | |
| Transfers in | 8,119 | - | 8,119 |
| Net change in fund balance | (12,856) | (530,036) | (542,892) |
| Fund balances, beginning of year | <u>61,569</u> | <u>1,494,087</u> | <u>1,555,656</u> |
| Fund balances, end of year | <u>\$ 48,713</u> | <u>\$ 964,051</u> | <u>\$ 1,012,764</u> |

GIBRALTAR SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Debt Service Funds June 30, 2011

| | 1996 Judgment Bond Fund | 2003 Refunding Bond Fund | 2002 Capital Project Series I Debt | 2002 Capital Project Series I I Debt | 2005 Refunding Bond Fund |
|--|----------------------------------|-----------------------------------|--|--|-----------------------------------|
| ASSETS | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | \$ 69,471 | \$ 104,044 | \$ 71,456 | \$ 150,830 | \$ 110,634 |
| Taxes receivable | 169 | 14,298 | 16,397 | 62,399 | 15,133 |
| Due from other funds | - | 100 | 98 | 433 | 94 |
| Total assets | \$ 69,640 | \$ 118,442 | \$ 87,951 | \$ 213,662 | \$ 125,861 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Due to other funds | \$ 96 | \$ - | \$ - | \$ - | \$ - |
| Fund balances | | | | | |
| Restricted | 69,544 | 118,442 | 87,951 | 213,662 | 125,861 |
| Total liabilities and fund balances | \$ 69,640 | \$ 118,442 | \$ 87,951 | \$ 213,662 | \$ 125,861 |

| 2006 Refunding Bond Fund | 2007 Refunding Bond Fund | Total |
|---|---|--------------------------|
| \$ 241,539 | \$ 86,908 | \$ 834,882 |
| 7,309 | 12,806 | 128,511 |
| <u>-</u> | <u>520</u> | <u>1,245</u> |
| <u>\$ 248,848</u> | <u>\$ 100,234</u> | <u>\$ 964,638</u> |

| | | |
|--------------------------|--------------------------|--------------------------|
| \$ 491 | \$ - | \$ 587 |
| <u>248,357</u> | <u>100,234</u> | <u>964,051</u> |
| <u>\$ 248,848</u> | <u>\$ 100,234</u> | <u>\$ 964,638</u> |

GIBRALTAR SCHOOL DISTRICT

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Debt Service Funds For the Year Ended June 30, 2011

| | 1996 Judgment Bond Fund | 2003 Refunding Bond Fund | 2002 Capital Project Series I Debt | 2002 Capital Project Series I I Debt | 2005 Refunding Bond Fund |
|---|--|---|---|---|---|
| Revenue | | | | | |
| Local sources: | | | | | |
| Property taxes | \$ (113) | \$ 484,606 | \$ 517,605 | \$ 1,993,831 | \$ 477,694 |
| Earnings on investments and deposits | 38 | 293 | 261 | 756 | 191 |
| Total revenue | (75) | 484,899 | 517,866 | 1,994,587 | 477,885 |
| Expenditures | | | | | |
| Debt Service: | | | | | |
| Principal | - | 540,000 | 500,000 | 1,025,000 | 55,000 |
| Interest | - | 66,781 | 97,601 | 1,102,000 | 444,750 |
| Other | - | 28,467 | 23,198 | 92,197 | 21,382 |
| Total expenditures | - | 635,248 | 620,799 | 2,219,197 | 521,132 |
| Net change in fund balance | (75) | (150,349) | (102,933) | (224,610) | (43,247) |
| Fund balances, beginning of year | 69,619 | 268,791 | 190,884 | 438,272 | 169,108 |
| Fund balances, end of year | \$ 69,544 | \$ 118,442 | \$ 87,951 | \$ 213,662 | \$ 125,861 |

| 2006 Refunding Bond Fund | 2007 Refunding Bond Fund | Total |
|---|---|-------------------|
| \$ 239,296 | \$ 347,238 | \$ 4,060,157 |
| 195 | 123 | 1,857 |
| 239,491 | 347,361 | 4,062,014 |
| 15,000 | - | 2,135,000 |
| 230,030 | 334,220 | 2,275,382 |
| 11,958 | 4,466 | 181,668 |
| 256,988 | 338,686 | 4,592,050 |
| (17,497) | 8,675 | (530,036) |
| 265,854 | 91,559 | 1,494,087 |
| \$ 248,357 | \$ 100,234 | \$ 964,051 |

SINGLE AUDIT ACT COMPLIANCE

GIBRALTAR SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Program or Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2010 | Internal Transfers | Cash Received/ Payments In Kind | Expenditures | Accrued (Deferred) Revenue at June 30, 2011 |
|---|----------------|-------------------------------|---|---|-----------------------|--|-----------------------|--|
| U.S. Department of Agriculture: | | | | | | | | |
| Passed Through the Michigan Department of Education: | | | | | | | | |
| Child Nutrition Cluster: | | | | | | | | |
| Non-Cash Assistance (Commodities): | | | | | | | | |
| Entitlement Commodities 2010/2011 | 10.555 | \$ 45,909 | \$ 35,486 | \$ - | \$ - | \$ 48,376 | \$ 48,376 | \$ - |
| Bonus Commodities 2010/2011 | 10.555 | 7,355 | 7,355 | - | - | 2,395 | 2,395 | - |
| Non-Cash Assistance Subtotal | | <u>53,264</u> | <u>42,841</u> | <u>-</u> | <u>-</u> | <u>50,771</u> | <u>50,771</u> | <u>-</u> |
| Cash Assistance: | | | | | | | | |
| National School Breakfast Program 2009/2010 | 10.553 | 70,155 | 70,155 | 13,110 | - | 13,110 | - | - |
| National School Breakfast Program 2010/2011 | 10.553 | 84,610 | - | - | - | 80,716 | 84,610 | 3,894 |
| National School Lunch Program 2009/2010 | 10.555 | 367,783 | 367,783 | 60,645 | - | 60,645 | - | - |
| National School Lunch Program 2010/2011 | 10.555 | 396,849 | - | - | - | 381,931 | 396,849 | 14,918 |
| Cash Assistance Subtotal | | <u>919,397</u> | <u>437,938</u> | <u>73,755</u> | <u>-</u> | <u>536,402</u> | <u>481,459</u> | <u>18,812</u> |
| Total U.S. Department of Agriculture | | <u>972,661</u> | <u>480,779</u> | <u>73,755</u> | <u>-</u> | <u>587,173</u> | <u>532,230</u> | <u>18,812</u> |
| U.S. Department of Education: | | | | | | | | |
| Direct - | | | | | | | | |
| CRISIS Grant Q184E090014 | 84.184E | 248,923 | 44,027 | 7,055 | - | 108,693 | 137,077 | 35,439 |
| Passed Through the Michigan Department of Education: | | | | | | | | |
| Education Stabilization Fund | | | | | | | | |
| Project 102525/0910 | 84.394 | 1,044,482 | 1,044,482 | 284,882 | - | 284,882 | - | - |
| Project 112525/1011 | 84.394 | 429,963 | - | - | - | 429,963 | 429,963 | - |
| Title I Cluster: | | | | | | | | |
| Title I | | | | | | | | |
| Project 101530/0910 | 84.010 | 311,681 | 225,966 | 61,260 | - | 90,364 | 29,104 | - |
| Project 111530/1011 | 84.010 | 360,700 | - | - | - | 247,367 | 263,951 | 16,584 |
| ARRA - Title I | | | | | | | | |
| Project 101535/0910 | 84.389 | 167,096 | 86,764 | 12,613 | (33,848) | 59,097 | 46,484 | - |
| Project 111535/1011 | 84.389 | 33,848 | - | - | - | 16,588 | 33,848 | 17,260 |
| Title II Part A | | | | | | | | |
| Project 100520/0910 | 84.367 | 103,554 | 64,384 | 4,452 | (35,966) | 7,656 | 3,204 | - |
| Project 110520/1011 | 84.367 | 130,119 | - | - | - | 71,711 | 84,022 | 12,311 |
| ARRA - Title II Part D | | | | | | | | |
| Project 104290/0910 | 84.386 | 6,146 | 3,326 | 41 | (630) | 2,232 | 2,191 | - |
| Project 114290/1011 | 84.386 | 629 | - | - | - | 629 | 629 | - |
| Education Jobs Fund | | | | | | | | |
| Project 112545/1011 | 84.410A | 758,461 | - | - | - | 584,242 | 758,461 | 174,219 |
| Total Passed Through the State of Michigan Department of Education | | <u>3,346,679</u> | <u>1,424,922</u> | <u>363,248</u> | <u>(70,444)</u> | <u>1,794,731</u> | <u>1,651,857</u> | <u>220,374</u> |

continued...

GIBRALTAR SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (concluded)
For the Year Ended June 30, 2011

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Program or Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2010 | Internal Transfers | Cash Received/ Payments In Kind | Expenditures | Accrued (Deferred) Revenue at June 30, 2011 |
|---|------------------------|--|--|---|-------------------------------|--|----------------------------|--|
| U.S. Department of Education (concluded): | | | | | | | | |
| Passed Through Wayne County Regional | | | | | | | | |
| Educational Service Agency: | | | | | | | | |
| Special Education Cluster: | | | | | | | | |
| I.D.E.A. Flow-Through | | | | | | | | |
| Project 100450 | 84.027A | 793,266 | 802,637 | 261,716 | - | 261,716 | - | - |
| Project 110450 | 84.027A | 870,572 | - | - | - | 687,962 | 870,572 | 182,610 |
| ARRA - I.D.E.A. | | | | | | | | |
| Project 100455 | 84.391A | 931,736 | 423,644 | (30,209) | - | 380,547 | 508,092 | 97,336 |
| Total Special Education Cluster | | <u>2,595,574</u> | <u>1,226,281</u> | <u>231,507</u> | <u>-</u> | <u>1,330,225</u> | <u>1,378,664</u> | <u>279,946</u> |
| Safe and Drug Free Schools | | | | | | | | |
| Project 102860-0910 | 84.186 | 9,863 | 9,863 | 3,158 | - | 3,158 | - | - |
| Total Passed Through the Wayne County Regional Educational Services Agency | | <u>2,605,437</u> | <u>1,236,144</u> | <u>234,665</u> | <u>-</u> | <u>1,333,383</u> | <u>1,378,664</u> | <u>279,946</u> |
| Total U.S. Department of Education | | <u>6,201,039</u> | <u>2,705,093</u> | <u>604,968</u> | <u>(70,444)</u> | <u>3,236,807</u> | <u>3,167,598</u> | <u>535,759</u> |
| U.S. Department of Health & Human Services: | | | | | | | | |
| Passed through Michigan Department of Community Health: | | | | | | | | |
| Passed Through Wayne County Regional | | | | | | | | |
| Educational Service Agency - | | | | | | | | |
| Medicaid Outreach | 93.778 | 3,859 | 30,060 | 1,934 | - | 4,404 | 3,859 | 1,389 |
| Total expenditures of federal awards | | <u>\$ 7,177,559</u> | <u>\$ 3,215,932</u> | <u>\$ 680,657</u> | <u>\$ (70,444)</u> | <u>\$ 3,828,384</u> | <u>\$ 3,703,687</u> | <u>\$ 555,960</u> |

GIBRALTAR SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Gibraltar School District (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Gibraltar School District is defined in Note 1 of the District's basic financial statements.

The amounts reported on the Grant Auditor's Report reconcile with this schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the District's basic financial statements.

**INDEPENDENT AUDITORS' 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**

November 1, 2011

To the Board of Education of
Gibraltar School District
Woodhaven, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Gibraltar School District* (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's financial statements, and have issued our report thereon dated November 1, 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, we noted certain matters that we reported to management of the District in a separate letter dated November 1, 2011.

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

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large initial 'L'.

**INDEPENDENT AUDITORS' 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**

November 1, 2011

To the Board of Education of
Gibraltar School District
Woodhaven, Michigan

Compliance

We have audited the compliance of *Gibraltar School District* (the "District") 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 its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's 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 the District's 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 the District's compliance with those requirements.

In our opinion, Gibraltar School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's 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.

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

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



GIBRALTAR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency (ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? X yes _____ no

GIBRALTAR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-------------------------|---|
| 84.394 | ARRA – Education Stabilization |
| 84.410 | Education Jobs Fund |
| 10.553, 10.555 & 10.556 | Child Nutrition Cluster |

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

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-1 Annual On-Site Reviews – Immaterial Noncompliance

Programs: *Child Nutrition Cluster; CFDA # 10.553, 10.555 & 10.556*

Criteria: A complete review of the counting and claiming procedures must be conducted by the District in each building each year prior to February 1. Food Service Management Company personnel may not perform these on-site reviews. MDE Food Service Administrative Policy #6 School Year 2010-2011 provides guidance and a sample review form for on-site reviews.

Condition: During the year ended June 30, 2011, the Food Service Director, who is an employee of the District's Food Service Management Company, performed the on-site reviews. In addition, none of the reviews were dated.

Cause: The District was unaware that the annual on-site reviews are required to be completed by a District employee. In addition, it was an oversight by the Food Service Director that the reviews were not dated.

Effect: This condition increases the risk of noncompliance with Federal regulations for future audits.

GIBRALTAR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2011

2011-1 Annual On-Site Reviews (Concluded)

Recommendation: We recommend that the annual on-site reviews be completed by a District employee and ensure that the reviews are being dated to ensure compliance with Federal regulations.

Management's response: In the next fiscal year, a District employee will complete the on-site reviews and ensure that the reviews are dated.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *