

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2011

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AUDITORS' REPORT

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August 05, 2011

Independent Auditors' Report

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency, Iosco County, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the index. These financial statements are the responsibility of the Agency'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 05, 2011, included in the Single Audit Reports issued under separate cover, on our consideration of Iosco Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Iosco Regional Educational Service Agency's financial statements as a whole. The combining nonmajor funds and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor funds and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stephenson, Grain & Co., P.C.

As management of the losco Regional Educational Service Agency, (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Agency's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, Debt Retirement Fund and Capital Project Fund.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities is positive for the Agency.

The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$3,192,042 (net assets). Of this amount, \$496,328 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to taxpayers, students and creditors.

The Agency's total net assets decreased by \$53,722. This represents the degree to which ongoing revenues have not surpassed ongoing expenses.

As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$935,450, a decrease of \$901,732 in comparison with the prior year. Of this amount, \$631,773 is available for spending at the Agency's discretion (unassigned fund balance). This represents 9% of the total expenditures of these funds.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the losco Regional Educational Service Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Both of the government-wide financial statements distinguish functions of the Iosco Regional Educational Service Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Agency include instruction, support services, community services, and transfers to other districts. The Agency does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Assets and Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Agency does not currently have any proprietary funds or fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Special Education Fund and Vocational Education Fund which are considered to be major funds.

The Agency adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the General Fund, Special Education Fund and Vocational Education Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Agency's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the General Fund, Vocational Education Fund, and the Special Education Fund.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's net assets were \$3,192,042 at June 30, 2011. Of this amount, \$496,328 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Agency's governmental activities.

TABLE 1
NET ASSETS

	Governmental Activities	
	June 30, 2011	June 30, 2010
Current Assets	\$ 1,935,529	\$ 2,840,696
Capital Assets, Net	2,961,154	3,096,658
Total Assets	4,896,683	5,937,354
Current Liabilities	1,010,917	1,073,545
Noncurrent Liabilities	693,724	1,618,045
Total Liabilities	1,704,641	2,691,590
 <u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,412,230	1,548,682
Restricted	283,484	589,285
Unrestricted	496,328	1,107,797
Total Net Assets	\$ 3,192,042	\$ 3,245,764

The \$496,328 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$496,328 left.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

The Agency's net assets were \$3,192,042 at June 30, 2011. Capital assets, net of related debt totaled \$2,412,230. The debt of the Agency will be paid for by property taxes collected as the debt service comes due. Day to day operations will be paid for by property taxes, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$496,328 is unrestricted.

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended June 30, 2011	Year Ended June 30, 2010
Revenue:		
Program Revenue:		
Charges for Services	\$ 711,967	\$ 920,509
Operating Grants and Contributions	3,829,074	4,114,523
Capital Grants and Contributions	0	57,995
General Revenue:		
Current Property Taxes	1,333,488	1,381,645
State School Aid – Unrestricted	8,482	10,764
Investment Earnings	1,856	4,113
Unrestricted Contributions	11,123	12,704
Gain (Loss) on Sale of Capital Assets	3,964	(3,259)
Miscellaneous	<u>32,173</u>	<u>29,112</u>
Total Revenue	<u>5,932,127</u>	<u>6,528,106</u>
Functions/Program Expenses:		
Instruction	2,439,297	2,400,523
Support Services	2,762,576	2,756,755
Community Services	233,593	234,182
Transfers to Other Districts	498,578	831,009
Interest on Long-Term Debt	<u>51,805</u>	<u>74,713</u>
Total Functions/Program Expenses	<u>5,985,849</u>	<u>6,297,182</u>
Change in Net Assets	(53,722)	230,924
Net assets - beginning	<u>3,245,764</u>	<u>3,014,840</u>
Net assets - ending	<u>\$ 3,192,042</u>	<u>\$ 3,245,764</u>

Governmental activities decreased the Agency's net assets by \$53,722.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$5,985,849. However, the amount that our taxpayers ultimately financed for these activities through Agency taxes was only \$1,333,488 because some of the cost was paid by those who benefited from the programs (\$711,967), by other governments and organizations who subsidized certain programs with grants and contributions (\$3,829,074), through unrestricted state aid (\$8,482), and by miscellaneous sources (\$49,116).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Vocational Education Fund and the Special Education Fund.

During the fiscal year ended June 30, 2011, the Agency amended the budgets of the major governmental funds a couple of times, none significantly.

General Fund

The General Fund actual revenue was \$994,041. That amount is above the original budget estimates of \$852,558 and the final amended budget of \$981,019. The variance between the actual revenues, the original budget, and the final budget was the result of underestimating miscellaneous grants from local sources.

The actual expenditures of the General Fund were \$865,532, which is above the original budget estimate of \$852,558 and below the final amended budget estimate of \$914,552. The variance between the actual expenditures, the original budget, and the final budget was due to a spending freeze and over-estimating various board and other expenditures.

The General Fund had total revenues of \$994,041 and total expenditures of \$865,532 with an ending fund balance of \$651,966.

Vocational Education Fund

The Vocational Education Fund actual revenue was \$673,349. That amount is below the original budget estimates of \$896,546 and above the final amended budget of \$628,978. The variance between the actual revenues, the original budget, and the final budget was the result of fluctuations in the number of vocational education students from the estimated students at the beginning of the year compared to the number who actually enrolled.

The actual expenditures of the Vocational Education Fund were \$1,152,368, which is above the original budget estimates of \$896,646 and below the final amended budget of \$1,209,878. The variance between the actual expenditures, the original budget, and the final budget was due to a spending freeze and a change in the number of vocational education students expected to re-enroll and the number of students who actually enrolled. In addition, the original budget did not include management's decision to payoff outstanding debt of \$326,700.

The Vocational Education Fund had total revenues of \$673,349 and total expenditures of \$1,152,368 with an ending fund balance of \$101,129.

Special Education Fund

The Special Education Fund actual revenue was \$4,084,460. That amount is below the original budget estimates of \$4,172,284 and the final amended budget of \$4,393,430. The variance between the actual revenues, the original budget, and the final budget was the result of the ARRA Special Education Flow Through Grant revenue which was not fully spent in the current year, and therefore not fully drawn down.

The actual expenditures of the Special Education Fund were \$4,639,766, which is above the original budget estimates of \$4,172,284 and below the final amended budget of \$4,920,360. The variance between the actual expenditures, the original budget, and the final budget was due to the ARRA Special Education Flow Through Grant which was fully spent in the current year. In addition, the original budget did not include management's decision to payoff outstanding debt of \$232,740.

The Special Education Fund had total revenues of \$4,084,460 and total expenditures of \$4,639,766 with an ending fund balance of \$59,472.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$6,833,859. The governmental funds had a net loss in fund balance of \$901,732. The ending fund balance for all governmental funds was \$935,450 which represents 14% of current year expenditures. The ending fund balance percentage for the prior year represented 28% of last year's expenditures. This fund balance will be used to help reduce the amount of financing needed for the first six months of the school year as well as providing a contingency for unexpected expenditures and revenue cuts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the Agency had \$5,111,921 invested in land and buildings, furniture and equipment and vehicles and buses. Of this amount, \$2,150,767 in depreciation has been taken over the years. We currently have a net book value of \$2,961,154. Total additions for the year were \$46,905. Current year additions included one used school bus totaling \$38,700 and \$8,205 for a new truck for the truck driving school. One bus, one truck, a milling machine and surface grinder were disposed of for a gain on disposal of \$3,964 in the current year. Other equipment which was below the capitalization policy was also disposed of in the current year.

Additional information on the Agency's capital assets can be found in Note 4 of this report.

Long-Term Debt

At June 30, 2011, the Agency had \$548,924 in bonds and notes outstanding of which \$48,924 represent general obligation bonds of the Agency. In the current year the \$800,000 Note Payable to Comerica Securities was paid off.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in Note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is continuing its decline. The current State of Michigan revenue estimates have declined to the point that 2011-2012 funding is uncertain. These factors were considered in preparing the Agency's budgets for the 2011-2012 fiscal year.

Due to external economic factors, the Iosco RESA's economic future, without balanced support from the local school districts, puts vocational education in jeopardy. Therefore, potential solutions for this issue are as follows:

- 1) Pass a vocational education millage.
- 2) Direction of more students to the vocational education programs at the Iosco RESA by the local districts.

Subsequent to June 30, 2011, the Agency has borrowed \$275,000 and \$300,000 in state aid anticipation notes, bearing interest at .6% and .311%, respectively. The \$275,000 note requires monies to pay the principal and interest be set aside in a separate fund in seven equal installments.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Iosco Regional Educational Service Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Ron Stec
Assistant Superintendent
Iosco Regional Educational Service Agency
27 N. Rempert Road
Tawas City, MI 48763
Office Telephone (989) 362-3006

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 1,117,223
Receivables:	
Accounts	14,923
Due from Other Governmental Units	789,945
Inventory: (Note 1)	
Aviation Trades Aircraft	12,122
Prepaid Expenses	1,316
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 4)	266,900
Capital Assets, Net of Accumulated Depreciation (Note 4)	<u>2,694,254</u>
 Total Assets	 <u>4,896,683</u>
 <u>Liabilities</u>	
Accounts Payable	27,716
Due to Other Governmental Units	370,418
Interest Payable	10,838
Payroll Deductions and Withholdings	41,516
Accrued Expenses	97,883
Salaries Payable	152,847
Deferred Revenue (Note 7)	309,699
Long-Term Liabilities (Note 6)	
Due within one year	168,648
Due in more than one year	<u>525,076</u>
 Total Liabilities	 <u>1,704,641</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	2,412,230
Restricted For:	
Vocational Education	101,129
Special Education	59,472
Capital Projects	122,883
Unrestricted	<u>496,328</u>
 Total Net Assets	 <u>\$ 3,192,042</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expenses) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 2,439,297	\$ 427,409	\$ 2,658,440	\$ 0	\$ 646,552
Support Services	2,762,576	225,177	1,073,416	0	(1,463,983)
Community Services	233,593	59,381	97,218	0	(76,994)
Transfers to Other Districts	498,578	0	0	0	(498,578)
Interest on Long-Term Debt	<u>51,805</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(51,805)</u>
 Total	 <u>\$ 5,985,849</u>	 <u>\$ 711,967</u>	 <u>\$ 3,829,074</u>	 <u>\$ 0</u>	 <u>(1,444,808)</u>
 General Revenue:					
Property Taxes, Levied for General Purposes					1,333,488
State School Aid - Unrestricted					8,482
Investment Earnings					1,856
Unrestricted Contributions					11,123
Gain (Loss) on Sale of Capital Assets					3,964
Miscellaneous					<u>32,173</u>
Total General Revenue					<u>1,391,086</u>
 Change in net assets					 (53,722)
 Net assets - beginning					 <u>3,245,764</u>
 Net assets - ending					 <u>\$ 3,192,042</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2011

<u>ASSETS</u>	Special Revenue Funds				<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Vocational Education Fund</u>	<u>Special Education Fund</u>	<u>Other Governmental Funds</u>	
Cash and Cash Equivalents (Note 2)	\$ 430,735	\$ 33,021	\$ 530,584	\$ 122,883	\$ 1,117,223
Receivables:					
Accounts	14,923	0	0	0	14,923
Due from Other Governmental Units	93,148	107,616	589,181	0	789,945
Due from Other Funds (Note 3)	150,000	0	0	0	150,000
Inventory: (Note 1)					
Aviation Trades Aircraft	0	12,122	0	0	12,122
Prepaid Expenses	<u>1,316</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,316</u>
 Total Assets	 <u>\$ 690,122</u>	 <u>\$ 152,759</u>	 <u>\$ 1,119,765</u>	 <u>\$ 122,883</u>	 <u>\$ 2,085,529</u>
 <u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 8,829	\$ 8,316	\$ 10,571	\$ 0	\$ 27,716
Due to Other Governmental Units	12,446	0	357,972	0	370,418
Due to Other Funds (Note 3)	0	0	150,000	0	150,000
Payroll Deductions and Withholdings	0	6,779	34,737	0	41,516
Accrued Expenditures	0	11,899	85,984	0	97,883
Salaries Payable	0	24,636	128,211	0	152,847
Deferred Revenue (Note 7)	<u>16,881</u>	<u>0</u>	<u>292,818</u>	<u>0</u>	<u>309,699</u>
Total Liabilities	<u>38,156</u>	<u>51,630</u>	<u>1,060,293</u>	<u>0</u>	<u>1,150,079</u>
 <u>Fund Equity</u>					
<u>Fund Balances:</u>					
<u>Nonspendable:</u>					
Inventory	0	12,122	0	0	12,122
Prepaid Expenses	1,316	0	0	0	1,316
<u>Restricted For:</u>					
Capital Projects	0	0	0	122,883	122,883
<u>Committed To:</u>					
<u>2011/2012 Budgeted</u>					
Expenditures	18,877	0	59,472	0	78,349
<u>Assigned To:</u>					
Vocational Education	0	89,007	0	0	89,007
Unassigned:	<u>631,773</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>631,773</u>
Total Fund Equity	<u>651,966</u>	<u>101,129</u>	<u>59,472</u>	<u>122,883</u>	<u>935,450</u>
 Total Liabilities and Fund Equity	 <u>\$ 690,122</u>	 <u>\$ 152,759</u>	 <u>\$ 1,119,765</u>	 <u>\$ 122,883</u>	 <u>\$ 2,085,529</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2011

Total governmental fund balances	\$	935,450
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:		
Capital Asset Cost	\$	5,111,921
Capital Asset Accumulated Depreciation		<u>(2,150,767)</u>
		2,961,154
Accrued interest on long-term liabilities		(10,838)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds Payable		(48,924)
Notes Payable		(500,000)
Compensated Absences Payable		<u>(144,800)</u>
Total long-term liabilities		<u>(693,724)</u>
Total net assets - governmental activities	\$	<u><u>3,192,042</u></u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	<u>Special Revenue Funds</u>				Total Governmental Funds
	<u>General Fund</u>	<u>Vocational Education Fund</u>	<u>Special Education Fund</u>	<u>Other Governmental Funds</u>	
Revenue					
Local Sources	\$ 533,506	\$ 432,038	\$ 1,558,698	\$ 120	\$ 2,524,362
State Sources	435,553	94,400	849,095	176,193	1,555,241
Federal Sources	<u>24,982</u>	<u>146,911</u>	<u>1,676,667</u>	<u>0</u>	<u>1,848,560</u>
Total revenue	<u>994,041</u>	<u>673,349</u>	<u>4,084,460</u>	<u>176,313</u>	<u>5,928,163</u>
Expenditures					
Current:					
Instruction	0	516,402	1,836,722	0	2,353,124
Support Services	622,829	147,488	1,892,264	0	2,662,581
Community Services	163,554	0	61,795	0	225,349
Outgoing Transfers to Other Districts	12,549	18,125	467,904	0	498,578
Capital Outlay	8,205	0	46,003	0	54,208
Debt Service:					
Principal Retirement	54,080	435,600	310,320	129,021	929,021
Interest and Fees on Long-Term Debt	4,315	34,753	24,758	47,172	110,998
Total expenditures	<u>865,532</u>	<u>1,152,368</u>	<u>4,639,766</u>	<u>176,193</u>	<u>6,833,859</u>
Excess of revenue over (under) expenditures	<u>128,509</u>	<u>(479,019)</u>	<u>(555,306)</u>	<u>120</u>	<u>(905,696)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	0	1,708	2,256	0	3,964
Operating Transfers In	0	491,700	232,740	0	724,440
Operating Transfers Out	<u>(724,440)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(724,440)</u>
Total other financing sources (uses)	<u>(724,440)</u>	<u>493,408</u>	<u>234,996</u>	<u>0</u>	<u>3,964</u>
Excess of revenue and other sources over (under) expenditures and other uses	(595,931)	14,389	(320,310)	120	(901,732)
Fund balances - beginning of year	<u>1,247,897</u>	<u>86,740</u>	<u>379,782</u>	<u>122,763</u>	<u>1,837,182</u>
Fund balances - end of year	<u>\$ 651,966</u>	<u>\$ 101,129</u>	<u>\$ 59,472</u>	<u>\$ 122,883</u>	<u>\$ 935,450</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Total net change in fund balances - governmental funds \$ (901,732)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (182,409)	
Capital outlays reported in the governmental funds	<u>46,905</u>	(135,504)

Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.

Bonds Payable	129,021	
Notes Payable	<u>800,000</u>	929,021

Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effect of the treatment of these activities are as follows:

Interest	59,193	
Compensated Absences	<u>(4,700)</u>	<u>54,493</u>

Change in net assets of governmental activities \$ (53,722)

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Iosco Regional Educational Service Agency (Agency) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Agency is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

Iosco Regional Educational Service Agency provides special education services to students in Iosco County, Michigan and parts of the counties of Alcona, Arenac, and Ogemaw. The Agency operates under an elected Board of Education (five members) represented by members elected by delegates from local agencies in the Iosco Regional Educational Service Agency's service area. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The Agency also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Iosco Regional Educational Service Agency's Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Iosco Regional Educational Service Agency. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The Agency uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Agency functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Agency are grouped into the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Agency's major governmental funds:

General Fund - The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund - The Vocational Education Fund is used to account for all financial resources allocated for vocational education instruction and related supporting services within the Agency.

Special Education Fund - The Special Education Fund is used to account for all financial resources allocated for special education instruction and related supporting services within the Agency.

The other governmental funds of the Agency account for the accumulation of resources for, and the payment of debt, and the acquisition or construction of major capital facilities.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Agency that are governmental and those that are considered business-type activities. The Agency does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Agency's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Agency, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Agency.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital project funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the Agency. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor funds are in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Agency, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Agency receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2011, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Agency are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Inventory - Aviation Trades Aircraft

Inventory represents the fair market value at the time of donation plus additional costs of an aircraft received for future renovation and sale.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Agency does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

L. Compensated Absences

The Agency reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Agency's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are included in "Salaries Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Balances (Continued)

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the Agency’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the Agency’s “intent” to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

O. Property Taxes

The Agency levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the Agency through February. The delinquent real property taxes of the Agency are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Agency for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

P. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the Agency. For the year ended June 30, 2011, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2010.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2010 - August, 2011. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. State Categorical Revenue

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

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2011.

T. Economic Dependency

The Agency received approximately 26% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Agency, the Agency is considered to be economically dependent.

U. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

V. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Iosco Regional Educational Service Agency follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Agency's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Budgetary Policies and Data (Continued)

3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Agency's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents \$ 1,117,223

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit) \$	245,769
Investments in Pooled Funds	871,254
Petty Cash and Cash on Hand	200
Total	\$ 1,117,223

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

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ 871,254	Daily

Interest Rate Risk

In accordance with its investment policy, the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the Agency's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2011, the Agency's investment in the investment pool was rated AAAM by Standard & Poor's.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of June 30, 2011, \$146,205 of the Agency's bank balance of \$529,503 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Agency will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Agency will do business.

Foreign Currency Risk

The Agency is not authorized to invest in investments which have this type of risk.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ <u>150,000</u>	Special Education Fund	\$ <u>150,000</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>July 01, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>266,900</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>266,900</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	3,035,677	0	0	3,035,677
Furniture, Fixtures and Equipment	1,194,606	0	(8,680)	1,185,926
Vehicles and Buses	<u>621,978</u>	<u>46,905</u>	<u>(45,465)</u>	<u>623,418</u>
Subtotal	<u>4,852,261</u>	<u>46,905</u>	<u>(54,145)</u>	<u>4,845,021</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(541,974)	(68,006)	0	(609,980)
Furniture, Fixtures and Equipment	(1,080,623)	(51,156)	8,680	(1,123,099)
Vehicles and Buses	<u>(399,906)</u>	<u>(63,247)</u>	<u>45,465</u>	<u>(417,688)</u>
Subtotal	<u>(2,022,503)</u>	<u>(182,409)</u>	<u>54,145</u>	<u>(2,150,767)</u>
Capital Assets Being Depreciated	<u>2,829,758</u>	<u>(135,504)</u>	<u>0</u>	<u>2,694,254</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,096,658</u>	<u>\$ (135,504)</u>	<u>\$ 0</u>	<u>\$ 2,961,154</u>

Depreciation expense was charged to activities of the Agency as follows:

Governmental Activities

Instruction	\$ 81,457
Support Services	93,026
Community Services	<u>7,926</u>
	<u>\$ 182,409</u>

NOTE 5 - SHORT-TERM DEBT

The Agency has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The Agency did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2011.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	Date of Contract	Principal Due	Interest	Total Obligation
School Improvement Bonds:				
The bonds dated November 24, 1998 which bear interest at 4.76% are due serially each May 15 through 2013. Payments are made from the Durant Bond Debt Retirement Fund.				
	1998	\$ <u>48,924</u>	\$ <u>3,520</u>	\$ <u>52,444</u>

B. Notes Payable

	Date of Contract	Principal Due	Interest	Total Obligation
Building and Equipment Note:				
B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated April 11, 2002 which bears interest at 5.625%, is due annually each August 15, beginning 2011 through 2014. Interest is due semi-annually on February 15 and August 15 of each year. Payments are made from the General Fund, the Vocational Education Fund and the Special Education Fund.				
	2002	\$ <u>500,000</u>	\$ <u>59,063</u>	\$ <u>559,063</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2011 are as follows:

	Government Activities		
	Principal	Interest	Total
2012	\$ 133,893	\$ 27,360	\$ 161,253
2013	145,031	19,754	164,785
2014	130,000	11,531	141,531
2015	<u>140,000</u>	<u>3,938</u>	<u>143,938</u>
Total	<u>\$ 548,924</u>	<u>\$ 62,583</u>	<u>\$ 611,507</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the Agency is under no obligation for payment.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

C. Compensated Absences Payable

The Agency has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for Iosco Regional Educational Service Agency was \$144,800 at June 30, 2011, of which \$34,755 was the estimated current portion.

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Agency for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds	\$ 177,945	\$ 0	\$ (129,021)	\$ 48,924	\$ 23,893
Notes Payable	1,300,000	0	(800,000)	500,000	110,000
Compensated Absences Payable	<u>140,100</u>	<u>4,700</u> *	<u>0</u>	<u>144,800</u>	<u>34,755</u>
Total Long-Term Liabilities	<u>\$ 1,618,045</u>	<u>\$ 4,700</u>	<u>\$ (929,021)</u>	<u>\$ 693,724</u>	<u>\$ 168,648</u>

*Represents net of additions and retirements for the year.

The interest expenses on long-term obligations for the year were \$51,805.

Compensated absences for the governmental funds are generally liquidated by the General, Vocational Education and Special Education funds.

NOTE 7 - DEFERRED REVENUE

Governmental funds deferred revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Great Parents ISD	\$ 16,881
Special Education Fund:	
Medicaid Revenue	<u>292,818</u>
Total	<u>\$ 309,699</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2011, the following transfers were made:

Description	Operating Transfers In	Operating Transfers Out
General Fund	\$ 0	\$ 724,440
Vocational Education Fund	491,700	0
Special Education Fund	232,740	0
	\$ 724,440	\$ 724,440

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In the current year, large transfers of funds were made from the General Fund to the Vocational Education Fund and the Special Education Fund, in order to pay off a note early.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Agency's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Agency for these budgetary funds were adopted at the functional level.

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

Fund/Function	Total Appropriations	Amount of Expenditures	Budget Variance
Special Education Fund/Instruction	\$ 1,827,918	\$ 1,836,722	\$ 8,804

NOTE 10 - RETIREMENT PLANS

Defined Benefit Plan

The Iosco Regional Educational Service Agency contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 10 - RETIREMENT PLANS (CONTINUED)

Funding Policy

Effective January 1, 1987, employees who were MPSERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and; employees hired between January 1, 1990 and June 30, 2008 will contribute 4.3% of all wages over \$15,000 and employees hired after June 30, 2008 will contribute 6.4% of wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Effective September 2010, employees who first work on or after July 1, 2010 are eligible to be enrolled in the MPSERS Pension Plus Plan (PPP). The employer pays a reduced rate for MIP for employees that participate in PPP.

During the plan fiscal year 2010, employer contributions were 16.94% of covered compensation as agencies were responsible for the entire pension and health insurance contribution. After September 30, 2010, the contribution rate increased to 20.66% of covered compensation, except for PPP members. Contributions for PPP members is at a reduced rate of 19.16%. The contribution requirements of plan members and Iosco Regional Educational Service Agency are established and may be amended by the MPSERS Board. The Agency's contributions to MPSERS for the years ending June 30, 2011, 2010 and 2009 were \$417,685, \$374,324 and \$366,514, respectively, equal to the required contributions for each year.

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The Agency offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Iosco Regional Educational Service Agency. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$13,531 for the year ended June 30, 2011.

The Agency also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$29,380 for the year ended June 30, 2011. The assets of the plan are administered and held by various approved third party financial institutions.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 10 - RETIREMENT PLANS (CONTINUED)

Defined Contribution Plan

Plan Description

The Agency's defined contribution pension plan provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPSERS) Pension Plus Plan of Michigan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPSERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The report may be obtained by writing to MPSERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

The Agency employees are required to contribute 2% of their earnings for the plan year, unless they elect out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees can elect to contribute more than 2% in full percent increments. For employees that elect to participate, the employer will match 50% of the contribution up to 1%. Employer contributions are considered a section 401(a) contribution.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2011, the Agency contributed \$441 on behalf of eligible employees. Employee contributions amounted to \$882 for eligible employees.

NOTE 11 - UNEMPLOYMENT COMPENSATION

The Agency is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Agency must reimburse the Employment Agency for all benefits charged against the Agency. Accrued unemployment compensation was \$0 as of June 30, 2011.

NOTE 12 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Agency participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The Agency pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Agency has not been informed of any special assessments being required.

The Agency continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 13 - GOVERNMENTAL REGULATION

Substantially all of the Agency's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the Agency. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The Agency participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2011, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Agency expects such amounts, if any, to be immaterial.

NOTE 15 - SUBSEQUENT EVENTS

On August 1, 2011, the Agency borrowed \$275,000 and \$300,000 in state aid anticipation notes, bearing interest at 0.600% and 0.311%, respectively. The \$275,000 note requires monies to pay the principal and interest be set aside in a separate fund in seven equal installments. Both notes mature on August 20, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 486,039	\$ 516,333	\$ 533,506	\$ 17,173
State Sources	347,168	439,704	435,553	(4,151)
Federal Sources	19,351	24,982	24,982	0
Total revenue	852,558	981,019	994,041	13,022
<u>Expenditures</u>				
Current:				
Support Services	641,709	660,867	622,829	38,038
Community Services	170,014	168,085	163,554	4,531
Outgoing Transfers to Other Districts	13,000	13,000	12,549	451
Capital Outlay	10,000	14,205	8,205	6,000
Debt Service:				
Principal Retirement	13,520	54,080	54,080	0
Interest and Fees on Long-Term Debt	4,315	4,315	4,315	0
Total expenditures	852,558	914,552	865,532	49,020
Excess of revenue over expenditures	0	66,467	128,509	62,042
<u>Other Financing Uses</u>				
Operating Transfers Out	0	(725,900)	(724,440)	1,460
Excess of revenue over (under) expenditures and other uses	0	(659,433)	(595,931)	63,502
Fund balances - beginning of year	1,247,897	1,247,897	1,247,897	0
Fund balances - end of year	\$ 1,247,897	\$ 588,464	\$ 651,966	\$ 63,502

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 VOCATIONAL EDUCATION FUND
For the Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 685,300	\$ 402,965	\$ 432,038	\$ 29,073
State Sources	79,633	94,400	94,400	0
Federal Sources	<u>131,613</u>	<u>131,613</u>	<u>146,911</u>	<u>15,298</u>
Total revenue	<u>896,546</u>	<u>628,978</u>	<u>673,349</u>	<u>44,371</u>
<u>Expenditures</u>				
Current:				
Instruction	551,142	545,295	516,402	28,893
Support Services	170,362	162,080	147,488	14,592
Outgoing Transfers to Other Districts	25,339	20,000	18,125	1,875
Capital Outlay	12,000	12,150	0	12,150
Debt Service:				
Principal Retirement	108,900	435,600	435,600	0
Interest and Fees on Long-Term Debt	<u>28,903</u>	<u>34,753</u>	<u>34,753</u>	<u>0</u>
Total expenditures	<u>896,646</u>	<u>1,209,878</u>	<u>1,152,368</u>	<u>57,510</u>
Excess of revenue over (under) expenditures	<u>(100)</u>	<u>(580,900)</u>	<u>(479,019)</u>	<u>101,881</u>
<u>Other Financing Sources</u>				
Sale of Capital Assets	100	1,000	1,708	708
Operating Transfers In	<u>0</u>	<u>493,160</u>	<u>491,700</u>	<u>(1,460)</u>
Total other financing sources	<u>100</u>	<u>494,160</u>	<u>493,408</u>	<u>(752)</u>
Excess of revenue and other sources over (under) expenditures	0	(86,740)	14,389	101,129
Fund balances - beginning of year	<u>86,740</u>	<u>86,740</u>	<u>86,740</u>	<u>0</u>
Fund balances - end of year	<u>\$ 86,740</u>	<u>\$ 0</u>	<u>\$ 101,129</u>	<u>\$ 101,129</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 SPECIAL EDUCATION FUND
For the Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 1,575,704	\$ 1,554,994	\$ 1,558,698	\$ 3,704
State Sources	987,891	849,094	849,095	1
Federal Sources	<u>1,608,689</u>	<u>1,989,342</u>	<u>1,676,667</u>	<u>(312,675)</u>
Total revenue	<u>4,172,284</u>	<u>4,393,430</u>	<u>4,084,460</u>	<u>(308,970)</u>
<u>Expenditures</u>				
Current:				
Instruction	1,898,654	1,827,918	1,836,722	(8,804)
Support Services	1,815,076	1,923,392	1,892,264	31,128
Community Services	66,216	63,231	61,795	1,436
Outgoing Transfers to Other Districts	195,000	719,241	467,904	251,337
Capital Outlay	95,000	51,500	46,003	5,497
Debt Service:				
Principal Retirement	77,580	310,320	310,320	0
Interest and Fees on Long-Term Debt	<u>24,758</u>	<u>24,758</u>	<u>24,758</u>	<u>0</u>
Total expenditures	<u>4,172,284</u>	<u>4,920,360</u>	<u>4,639,766</u>	<u>280,594</u>
Excess of revenue over (under) expenditures	<u>0</u>	<u>(526,930)</u>	<u>(555,306)</u>	<u>(28,376)</u>
<u>Other Financing Sources</u>				
Sale of Capital Assets	0	1,256	2,256	1,000
Operating Transfers In	<u>0</u>	<u>232,740</u>	<u>232,740</u>	<u>0</u>
Total other financing sources	<u>0</u>	<u>233,996</u>	<u>234,996</u>	<u>1,000</u>
Excess of revenue and other sources over (under) expenditures	0	(292,934)	(320,310)	(27,376)
Fund balances - beginning of year	<u>379,782</u>	<u>379,782</u>	<u>379,782</u>	<u>0</u>
Fund balances - end of year	<u>\$ 379,782</u>	<u>\$ 86,848</u>	<u>\$ 59,472</u>	<u>\$ (27,376)</u>

OTHER INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2011

	Debt Retirement Fund	Capital Projects Fund	Total Other Governmental Funds
	Durant Bond Debt Retirement Fund	Durant Capital Project Fund	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ <u>0</u>	\$ <u>122,883</u>	\$ <u>122,883</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
<u>Fund Equity</u>			
Fund Balances:			
Restricted For:			
Capital Projects	0	122,883	122,883
Assigned To:			
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Equity	<u>0</u>	<u>122,883</u>	<u>122,883</u>
Total Liabilities and Fund Equity	\$ <u>0</u>	\$ <u>122,883</u>	\$ <u>122,883</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	<u>Debt Retirement Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Durant Bond Debt Retirement Fund</u>	<u>Durant Capital Project Fund</u>	
<u>Revenue</u>			
Local Sources	\$ 0	\$ 120	\$ 120
State Sources	<u>176,193</u>	<u>0</u>	<u>176,193</u>
Total revenue	<u>176,193</u>	<u>120</u>	<u>176,313</u>
<u>Expenditures</u>			
Current:			
Debt Service:			
Principal Retirement	129,021	0	129,021
Interest and Fees on Long-Term Debt	<u>47,172</u>	<u>0</u>	<u>47,172</u>
Total expenditures	<u>176,193</u>	<u>0</u>	<u>176,193</u>
Excess of revenue over expenditures	0	120	120
Fund balances - beginning of year	<u>0</u>	<u>122,763</u>	<u>122,763</u>
Fund balances - end of year	<u>\$ 0</u>	<u>\$ 122,883</u>	<u>\$ 122,883</u>

INDIVIDUAL FUND SCHEDULES

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
	<u> </u>	<u> </u>	<u> </u>
<u>Local Sources</u>			
Current Property Taxes	\$ 335,883	\$ 333,373	\$ 345,412
Drivers Education Tuition	115,400	119,619	101,710
Interest on Investments	1,000	979	2,729
Miscellaneous Local Sources	64,050	79,535	86,646
	<u>516,333</u>	<u>533,506</u>	<u>536,497</u>
<u>State Sources</u>			
State Aid Foundation Allowance	405,204	400,306	408,258
ORV Safety Training Grant	500	165	640
Motorcycle Safety Grant	34,000	35,082	33,568
	<u>439,704</u>	<u>435,553</u>	<u>442,466</u>
<u>Federal Sources</u>			
Eisenhower Professional Development Grant	24,982	24,982	23,847
	<u>24,982</u>	<u>24,982</u>	<u>23,847</u>
Total Revenue	<u>\$ 981,019</u>	<u>\$ 994,041</u>	<u>\$ 1,002,810</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
<u>Support Services</u>			
Pupil Services:			
Attendance Services			
Purchased Services	\$ 30,050	\$ 27,072	\$ 25,846
Supplies, Materials and Other	50	0	0
	30,100	27,072	25,846
Pupil Support Services			
Purchased Services	400	267	145
	400	267	145
Total Pupil Services	30,500	27,339	25,991
Instructional Staff:			
Instructional Improvement			
Employee Benefits	0	0	721
Purchased Services	25,082	25,067	26,353
Supplies, Materials and Other	3,546	1,750	1,935
	28,628	26,817	29,009
Great Start Collaborative			
Salaries	3,780	3,780	30,080
Employee Benefits	952	929	7,668
Purchased Services	310	307	978
Supplies, Materials and Other	175	146	3,832
	5,217	5,162	42,558
Library Services			
Salaries	2,800	2,301	2,731
	2,800	2,301	2,731
Total Instructional Staff	36,645	34,280	74,298
General Administration:			
Board of Education			
Salaries	2,500	1,410	2,070
Purchased Services	21,889	16,801	15,286
Supplies, Materials and Other	4,800	4,349	4,700
	29,189	22,560	22,056
Executive Administration			
Salaries	134,879	134,878	147,010
Employee Benefits	95,123	94,841	36,144
Purchased Services	6,350	5,686	3,089
Supplies, Materials and Other	3,720	2,289	1,592
	240,072	237,694	187,835
Total General Administration	269,261	260,254	209,891

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Support Services (Continued)</u>			
School Administration:			
Special Education - ARRA			
Salaries	\$ 18,200	\$ 18,109	\$ 24,543
Employee Benefits	20,907	20,164	18,445
Purchased Services	13,102	10,691	6,455
Supplies, Materials and Other	<u>14,600</u>	<u>13,003</u>	<u>9,643</u>
	<u>66,809</u>	<u>61,967</u>	<u>59,086</u>
Central Office			
Employee Benefits	<u>300</u>	<u>269</u>	<u>262</u>
Total School Administration	<u>67,109</u>	<u>62,236</u>	<u>59,348</u>
Business:			
Fiscal Services			
Salaries	17,006	17,006	17,006
Employee Benefits	9,093	8,875	10,911
Purchased Services	2,000	1,950	0
Supplies, Materials and Other	3,100	2,275	2,993
Other Expenditures	<u>353</u>	<u>129</u>	<u>114</u>
	<u>31,552</u>	<u>30,235</u>	<u>31,024</u>
Operations and Maintenance:			
Purchased Services	19,650	15,677	12,461
Supplies, Materials and Other	<u>700</u>	<u>559</u>	<u>629</u>
	<u>20,350</u>	<u>16,236</u>	<u>13,090</u>
Transportation:			
Salaries	9,695	5,145	7,105
Employee Benefits	2,975	1,639	2,165
Purchased Services	42,660	42,223	35,765
Supplies, Materials and Other	<u>18,900</u>	<u>18,033</u>	<u>11,999</u>
	<u>74,230</u>	<u>67,040</u>	<u>57,034</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Support Services (Continued)</u>			
Central Services:			
Staff and Personnel Services			
Salaries	\$ 63,242	\$ 63,172	\$ 59,007
Employee Benefits	17,626	16,103	15,622
	<u>80,868</u>	<u>79,275</u>	<u>74,629</u>
Technology			
Salaries	15,500	15,499	11,899
Employee Benefits	4,484	4,163	3,319
Purchased Services	13,600	11,025	2,804
Supplies, Materials and Other	16,768	15,247	16,489
	<u>50,352</u>	<u>45,934</u>	<u>34,511</u>
Total Central Services	<u>131,220</u>	<u>125,209</u>	<u>109,140</u>
Total Support Services	<u>660,867</u>	<u>622,829</u>	<u>579,816</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	34,858	34,671	30,270
Employee Benefits	5,633	4,826	14,835
Purchased Services	72,325	71,327	59,814
Supplies, Materials and Other	55,269	52,730	52,579
	<u>168,085</u>	<u>163,554</u>	<u>157,498</u>
<u>Outgoing Transfers to Other Districts</u>			
Title V	<u>13,000</u>	<u>12,549</u>	<u>12,549</u>
<u>Capital Outlay</u>			
Support Services	<u>14,205</u>	<u>8,205</u>	<u>0</u>
<u>Debt Service</u>			
Principal Retirement	54,080	54,080	13,520
Interest and Fees on Long-Term Debt	4,315	4,315	5,004
Total Debt Service	<u>58,395</u>	<u>58,395</u>	<u>18,524</u>
<u>Operating Transfers Out</u>			
Operating Transfers Out	<u>725,900</u>	<u>724,440</u>	<u>50,000</u>
Total Expenditures and Transfers	<u>\$ 1,640,452</u>	<u>\$ 1,589,972</u>	<u>\$ 818,387</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Local Sources</u>			
Tuition	\$ 401,965	\$ 420,915	\$ 616,350
Contributions	0	7,840	6,637
Miscellaneous Local Sources	1,000	3,283	6,103
	<u>402,965</u>	<u>432,038</u>	<u>629,090</u>
<u>State Sources</u>			
Vocational Education	<u>94,400</u>	<u>94,400</u>	<u>102,131</u>
<u>Federal Sources</u>			
Michigan Rehab Services	25,000	25,000	25,000
Career and Technical Education	106,613	106,613	102,774
Education Jobs	0	15,298	0
	<u>131,613</u>	<u>146,911</u>	<u>127,774</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	1,000	1,708	100
Operating Transfers In	493,160	491,700	20,000
	<u>494,160</u>	<u>493,408</u>	<u>20,100</u>
Total Revenue and Other Financing Sources	<u>\$ 1,123,138</u>	<u>\$ 1,166,757</u>	<u>\$ 879,095</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Instruction</u>			
Added Needs:			
Vocational Education			
Salaries	\$ 252,383	\$ 250,776	\$ 274,950
Employee Benefits	170,361	167,270	152,691
Purchased Services	48,779	43,568	41,896
Supplies, Materials and Other	<u>73,772</u>	<u>54,788</u>	<u>58,454</u>
	<u>545,295</u>	<u>516,402</u>	<u>527,991</u>
 <u>Support Services</u>			
School Administration:			
Office of the Principal			
Salaries	27,478	22,964	28,001
Employee Benefits	19,370	13,367	21,094
Purchased Services	17,785	16,612	14,841
Supplies, Materials and Other	<u>4,000</u>	<u>3,890</u>	<u>3,685</u>
	<u>68,633</u>	<u>56,833</u>	<u>67,621</u>
 Operations and Maintenance:			
Purchased Services	<u>72,025</u>	<u>70,457</u>	<u>71,210</u>
 Central Services:			
Technology			
Salaries	11,900	11,899	11,899
Employee Benefits	3,222	3,219	3,013
Purchased Services	300	0	97
Supplies, Materials and Other	<u>6,000</u>	<u>5,080</u>	<u>6,176</u>
	<u>21,422</u>	<u>20,198</u>	<u>21,185</u>
 Total Support Services	 <u>162,080</u>	 <u>147,488</u>	 <u>160,016</u>
 <u>Outgoing Transfers to Other Districts</u>			
Vocational Education	<u>20,000</u>	<u>18,125</u>	<u>21,752</u>
 <u>Capital Outlay</u>			
Community Services	<u>12,150</u>	<u>0</u>	<u>0</u>
 <u>Debt Service</u>			
Principal Retirement	435,600	435,600	108,900
Interest and Fees on Long-Term Debt	<u>34,753</u>	<u>34,753</u>	<u>40,307</u>
 Total Debt Service	 <u>470,353</u>	 <u>470,353</u>	 <u>149,207</u>
 Total Expenditures and Transfers	 <u>\$ 1,209,878</u>	 <u>\$ 1,152,368</u>	 <u>\$ 858,966</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
	<u> </u>	<u> </u>	<u> </u>
<u>Local Sources</u>			
Current Property Taxes	\$ 1,008,916	\$ 1,000,115	\$ 1,036,233
Transportation Fees	38,000	46,957	37,051
Interest on Investments	700	757	1,216
Contributions	0	2,082	18
Medicaid Fee for Service	390,288	390,288	390,289
Miscellaneous Local Sources	117,090	118,499	131,705
	<u>1,554,994</u>	<u>1,558,698</u>	<u>1,596,512</u>
<u>State Sources</u>			
Special Education	<u>849,094</u>	<u>849,095</u>	<u>883,261</u>
<u>Federal Sources</u>			
Medicaid Outreach	5,500	5,492	20,962
Special Education	1,320,360	1,252,572	1,376,315
ARRA Special Education Flow Through	660,482	415,623	763,222
National School Lunch Program	3,000	2,980	2,897
	<u>1,989,342</u>	<u>1,676,667</u>	<u>2,163,396</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	1,256	2,256	735
Operating Transfers In	232,740	232,740	0
	<u>233,996</u>	<u>234,996</u>	<u>735</u>
Total Revenue and Other Financing Sources	<u>\$ 4,627,426</u>	<u>\$ 4,319,456</u>	<u>\$ 4,643,904</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Instruction</u>			
Added Needs:			
Trainable Mentally Impaired			
Salaries	\$ 625,251	\$ 623,443	\$ 659,956
Employee Benefits	380,847	392,157	402,721
Purchased Services	31,651	31,071	32,319
Supplies, Materials and Other	<u>25,500</u>	<u>25,171</u>	<u>24,656</u>
	<u>1,063,249</u>	<u>1,071,842</u>	<u>1,119,652</u>
Severely Mentally Impaired			
Salaries	91,774	91,387	88,286
Employee Benefits	133,159	134,705	73,328
Purchased Services	13,700	13,313	7,469
Supplies, Materials and Other	<u>4,000</u>	<u>3,908</u>	<u>2,263</u>
	<u>242,633</u>	<u>243,313</u>	<u>171,346</u>
Preschool Health			
Salaries	108,131	108,130	74,700
Employee Benefits	56,892	60,294	47,139
Supplies, Materials and Other	<u>6,000</u>	<u>5,664</u>	<u>5,962</u>
	<u>171,023</u>	<u>174,088</u>	<u>127,801</u>
Hearing Impaired			
Salaries	116,452	116,053	106,091
Employee Benefits	74,080	74,101	67,087
Purchased Services	1,040	424	697
Supplies, Materials and Other	<u>750</u>	<u>622</u>	<u>194</u>
	<u>192,322</u>	<u>191,200</u>	<u>174,069</u>
Visually Impaired			
Salaries	39,772	39,731	50,921
Employee Benefits	25,148	24,400	31,074
Purchased Services	6,400	5,860	5,654
Supplies, Materials and Other	<u>200</u>	<u>12</u>	<u>0</u>
	<u>71,520</u>	<u>70,003</u>	<u>87,649</u>
Resource Room			
Salaries	56,818	56,657	53,854
Employee Benefits	9,553	9,198	36,051
Purchased Services	275	254	0
Supplies, Materials and Other	<u>20,525</u>	<u>20,167</u>	<u>15,652</u>
	<u>87,171</u>	<u>86,276</u>	<u>105,557</u>
Total Instruction	<u>1,827,918</u>	<u>1,836,722</u>	<u>1,786,074</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Support Services</u>			
Pupil Services:			
Occupational Therapy			
Salaries	\$ 53,631	\$ 53,529	\$ 50,881
Employee Benefits	39,560	36,390	35,459
Purchased Services	92,800	91,839	88,915
Supplies, Materials and Other	9,317	8,991	6,326
	<u>195,308</u>	<u>190,749</u>	<u>181,581</u>
Instructional Staff:			
Director of Special Education			
Salaries	131,937	131,451	133,057
Employee Benefits	61,662	59,217	55,718
Purchased Services	280,985	277,142	324,404
Supplies, Materials and Other	900	589	1,386
	<u>475,484</u>	<u>468,399</u>	<u>514,565</u>
Special Education - ARRA			
Purchased Services	54,500	62,794	61,202
Supplies, Materials and Other	77,474	66,293	64,792
	<u>131,974</u>	<u>129,087</u>	<u>125,994</u>
Total Instructional Staff	<u>607,458</u>	<u>597,486</u>	<u>640,559</u>
School Administration:			
Central Office			
Purchased Services	52,760	51,301	42,493
Supplies, Materials and Other	29,300	27,627	19,661
	<u>82,060</u>	<u>78,928</u>	<u>62,154</u>
Business:			
Fiscal Services			
Salaries	58,024	56,597	65,535
Employee Benefits	31,579	29,267	29,389
Purchased Services	500	189	270
Supplies, Materials and Other	4,528	4,368	3,643
	<u>94,631</u>	<u>90,421</u>	<u>98,837</u>
Staff Secretary			
Salaries	39,300	39,195	37,258
Employee Benefits	30,439	30,113	28,981
Purchased Services	375	0	0
	<u>70,114</u>	<u>69,308</u>	<u>66,239</u>
Total Business	<u>164,745</u>	<u>159,729</u>	<u>165,076</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	2011 Amended Budget	2011 Actual	2010 Actual
	<u> </u>	<u> </u>	<u> </u>
<u>Support Services (Continued)</u>			
Operations and Maintenance:			
Purchased Services	\$ 64,046	\$ 59,814	\$ 58,508
Supplies, Materials and Other	3,000	2,515	3,132
	<u>67,046</u>	<u>62,329</u>	<u>61,640</u>
Transportation:			
Salaries	298,200	295,295	279,680
Employee Benefits	228,296	230,502	218,449
Purchased Services	74,299	73,038	85,106
Supplies, Materials and Other	109,800	109,113	92,948
	<u>710,595</u>	<u>707,948</u>	<u>676,183</u>
Central Services:			
ISD Planner/Monitor			
Purchased Services	74,000	73,614	105,576
Supplies, Materials and Other	800	563	1,549
	<u>74,800</u>	<u>74,177</u>	<u>107,125</u>
Technology			
Salaries	12,260	12,260	12,260
Employee Benefits	3,320	3,255	3,104
Purchased Services	0	0	97
Supplies, Materials and Other	5,800	5,403	4,006
	<u>21,380</u>	<u>20,918</u>	<u>19,467</u>
Total Central Services	<u>96,180</u>	<u>95,095</u>	<u>126,592</u>
Total Support Services	<u>1,923,392</u>	<u>1,892,264</u>	<u>1,913,785</u>
<u>Community Services</u>			
Early Intervention			
Salaries	33,625	33,625	40,879
Employee Benefits	20,156	19,965	18,623
Purchased Services	7,450	6,950	7,135
Supplies, Materials and Other	2,000	1,255	1,961
	<u>63,231</u>	<u>61,795</u>	<u>68,598</u>
<u>Outgoing Transfers to Other Districts</u>			
Medicaid Transfers	202,538	188,331	223,864
ARRA Flow Thru Transfers	516,703	279,573	572,844
Total Outgoing Transfers to Other Districts	<u>719,241</u>	<u>467,904</u>	<u>796,708</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011 Amended Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Capital Outlay</u>			
Instruction	\$ 5,000	\$ 0	\$ 0
Support Services	<u>46,500</u>	<u>46,003</u>	<u>145,003</u>
Total Capital Outlay	<u>51,500</u>	<u>46,003</u>	<u>145,003</u>
<u>Debt Service</u>			
Principal Retirement	310,320	310,320	98,004
Interest and Fees on Long-Term Debt	<u>24,758</u>	<u>24,758</u>	<u>29,852</u>
Total Debt Service	<u>335,078</u>	<u>335,078</u>	<u>127,856</u>
Total Expenditures and Transfers	<u>\$ 4,920,360</u>	<u>\$ 4,639,766</u>	<u>\$ 4,838,024</u>

August 5, 2011

Management and the Board of Education
Iosco Regional Educational Service Agency
Tawas City, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Iosco Regional Educational Service Agency for the year ended Thursday, June 30, 2011 and have issued our report dated August 5, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Agency during the audit and met with management on August 5, 2011. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the Agency and the Michigan Department of Education and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Graich & Co., P.C.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

As stated in our engagement letter dated March 8, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated March 8, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Iosco Regional Educational Service Agency are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Agency changed their accounting policies related to Fund Balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", in 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Balance Sheet.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Iosco Regional Educational Service Agency's financial statements was:

Management's estimate of the Medicaid Fee for Service revenue is based on the estimate payments received for the last two consecutive years from the Michigan Department of Community Health. We evaluated the key factors and assumptions used to develop the Medicaid Fee for Service revenue in determining that it is reasonable in relation to the financial statements taken as a whole

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Significant Audit Findings (Continued)

- ARRA funding has a dramatic effect on audit requirements. Due to the requirements built in the American Recovery and Reinvestment Act and the related federal Office of Management and Budget regulations, the number of federal programs we are required to audit and the audit procedures we are required to complete for each program has increased. The changes mean that if the Agency received ARRA funding combined with the traditional federal assistance and the resulting programs are “smaller,” the auditor may have to test them as well. The programs we tested this year are listed as “major programs” in the back of the Agency’s single audit report.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on August 5, 2011. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors’ report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Other Audit Findings or Issues (Continued)

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

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Losco Regional Educational Service Agency as of and for the year ended Thursday, June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Losco Regional Educational Service Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Losco Regional Educational Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Losco Regional Educational Service Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a material weakness and one deficiency that we consider to be a significant deficiency.

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. We consider the following deficiency in Losco Regional Educational Service Agency's internal control to be a material weakness:

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Agency's financial statements. However, if at any point in the audit we as auditors are part of the Agency's control system for producing reliable financial statements, auditing standards indicate that the Agency has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in Losco Regional Educational Service Agency's internal control to be a significant deficiency:

SEGREGATION OF DUTIES

Internal controls are designed to safeguard assets and help detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. We believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. All electronic fund transfers (EFT) noted on each bank statement should be reviewed for appropriateness with any cash accounts being transferred into, being traced to inclusion on the general ledger each month. This review should be performed by an individual independent from the initiation of EFT transactions, and should be documented with initialing and dating of the bank statement.

**APPENDIX II
MANAGEMENT COMMENTS**

We have also noted other items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

TIME AND EFFORT REPORTING

Office of Management and Budget Circular A-87 requires that when employees work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee or a supervisor with first-hand knowledge of the work performed by the employee. We noted that these semi-annual certifications were not completed for two individuals who worked on a single cost objective. We recommend that management establish procedures to ensure that semi-annual certifications are completed for all individuals who work on single cost objectives and whose wages are charged to a federal award.

WRITTEN PROCEDURES

The Michigan Department of Education issued a statement in their 2010-2011 Accounting and Auditing Alert noting a requirement for all districts to have written procedures on hand to coincide with their existing policies for a number of accounting and grant management areas. Through review of the current written procedures held by the Agency, we noted several areas where written procedures were not fully developed. We recommend that management work on developing these written procedures for all required areas as soon as possible.

AGENCY WEBSITE

Guidelines for Budget and Salary/Compensation Transparency Reporting addressed in MCL 388.1618(2) of the State School Aid Act, requires that an Agency maintain certain required elements on their public website. Through review of the Agency’s website, we noted that some of the required elements were not included. We recommend that management work with the Technology Director on including those missing elements on the website as soon as possible.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation		X		
Communication with Subrecipients	X			