

MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Mecosta-Osceola Intermediate School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mecosta-Osceola Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of June 30, 2011 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011, on our consideration of Mecosta-Osceola Intermediate School District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 27 through 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mecosta-Osceola Intermediate School District's basic financial statements. The additional information on pages 31 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maney Costeiran PC

September 27, 2011

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

As management of the Mecosta-Osceola Intermediate School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District 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 District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

Financial Highlights

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

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$15,247,409 (*net assets*). Of this amount, \$4,692,303 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets increased by \$713,404.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,644,697, a decrease of \$458,717 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District's operating funds (general fund, special education fund, and vocational education fund) was \$8,585,013 or 40% of the total expenditures of these operating funds. On pages xi and xii you will find a breakdown of the fund balance of the three major funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements comprise 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 District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the District'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. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the District include instruction, support services, community service and transfers to locals and other services. The District has no business-type activities as of and for the year ended June 30, 2011.

The government-wide financial statements can be found on pages 2 through 4 of this report.

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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental fund type category.

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 District's near-term financing requirements.

Because the focus of the 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 government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, the vocational education fund, and the capital projects fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its general, special education and vocational education budgets. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 5 through 9 of this report.

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. The notes to the financial statements can be found on pages 10 through 25 of this report.

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 District’s major funds. Required supplementary information can be found on pages 27 through 29 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 31 and 32 of this report.

Our auditor has 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 Additional 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 other parts in the financial section.

Government-wide Financial Analysis

The District’s net assets were \$15,247,409 at June 30, 2011. Of this amount, \$4,692,303 was unrestricted, an increase of \$713,404 from last fiscal year.

The following table shows the District’s net assets in 2011 and 2010.

District's Net Assets		
Mecosta-Osceola Intermediate School District		
	2011	2010
Assets:		
Current assets	\$ 11,056,361	\$ 12,261,518
Noncurrent assets	7,022,040	5,863,620
Total assets	18,078,401	18,125,138
Liabilities:		
Current liabilities	2,468,819	3,211,370
Noncurrent liabilities	362,173	379,763
Total liabilities	2,830,992	3,591,133
Net assets:		
Invested in capital assets, net of related debt	6,947,051	5,753,670
Restricted for special purposes	3,608,055	7,543,577
Unrestricted	4,692,303	1,236,758
Total net assets	\$ 15,247,409	\$ 14,534,005

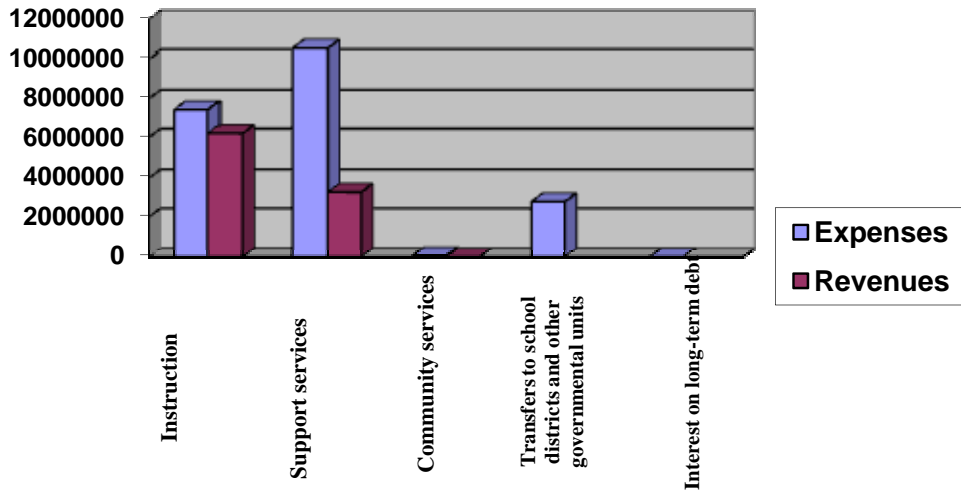
Mecosta-Osceola Intermediate School District
Changes in net assets

	Governmental Activities	
	2011	2010
Revenue:		
Program revenue:		
Charges for services	\$ 1,383,992	\$ 841,995
Operating grants	10,266,461	9,450,852
General revenue:		
Property taxes, levied for general purposes	505,318	517,044
Property taxes, levied for special education	6,764,983	6,916,195
Property taxes, levied for vocational education	3,033,249	3,099,950
Investment earnings	24,013	40,461
State sources	772,821	674,896
Other	289,561	690,308
Total revenue	23,040,398	22,231,701
Expenses:		
Instruction	7,225,976	7,706,733
Supporting services	11,218,917	10,904,315
Community services	79,069	63,656
Transfers to school districts and other governmental units	3,798,005	3,621,569
Interest on long-term debt	5,027	6,625
Total expenses	22,326,994	22,302,898
Change in net assets	713,404	(71,197)
Net assets, beginning of year	14,534,005	14,605,202
Net assets, end of year	\$ 15,247,409	\$ 14,534,005

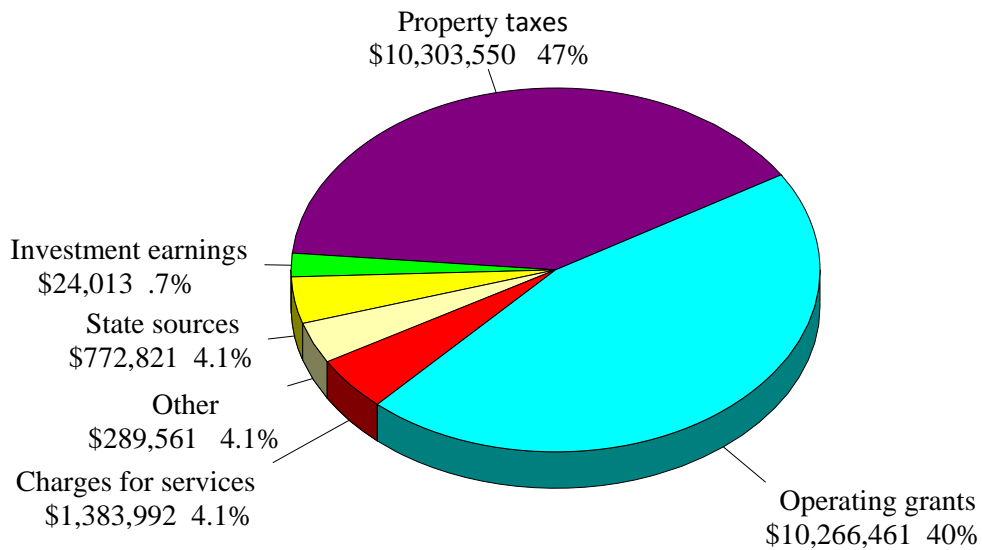
Governmental Activities. Net assets increased by \$713,404. Key elements of this increase are as follows:

- Operating revenues outpace operating expenditures

**Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2011**



**Revenues by Source – District Activities
Year ended June 30, 2011**



Major Governmental Funds Budgeting and Operating Highlights

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, and vocational education fund.

During the fiscal year ended June 30, 2011, the District amended the budgets of these major governmental funds two times.

General Fund - The general fund actual revenue was \$2.51 million. That amount is above the original budget estimate of \$2.37 million and below the final budget amendment of \$3.07 million.

The actual expenditures of the general fund were \$1.96 million, which is below the original budget of \$2.20 million and below the final amendment of \$2.61 million. The variance can be attributed to state and grant expenditures.

General fund had total revenues of \$2.51 million and total expenditures of \$1.96 million with an ending fund balance of \$1.92 million.

Special Education Fund - The special education fund actual revenue was \$16.34 million. That amount is above the original budget of \$15.89 million and below the final amendment of \$16.77 million.

The actual expenditures of the special education fund were \$16.22 million, which is below the original budget of \$16.72 million and below the final amendment of \$16.91 million. The variance was the result of containing expenditures throughout the Special Education Fund.

Special education fund had total revenue of \$16.34 million and total expenditures of \$16.22 million with an ending fund balance of \$5.19 million.

Vocational Education Fund - The career and technical education fund actual revenue was \$3.70 million. That amount is above the original budget of \$3.65 million and above the final amendment of \$3.69 million.

The actual expenditures were \$3.42 million, which is below the original budget of \$3.72 million and below the final amendment of \$3.75 million. The variance was the result of containing expenditures throughout the Vocational Education Fund.

Vocational education fund had total revenue of \$3.70 million and total expenditures of \$3.42 million with an ending fund balance of \$1.47 million.

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a district's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned, was \$1,852,910, while total fund balance of the general fund was \$1,915,538. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 85% of total general fund expenditures and operating transfers out, while total fund balance represents 87%.

The fund balance of the District's general fund increased by \$355,623 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the District.

The special education fund at year end had restricted fund balance of \$3,562,393, while total fund balance of the special education fund was \$5,195,739. Restricted fund balance represents approximately 22% of total special education fund expenditures and operating transfers out, while total fund balance represents approximately 32%.

The fund balance of the District's special education fund decreased by \$3,680 from the prior year. These resources are restricted for special education programs administered by the District and transfers to local districts for special education programs. The largest portion of this fund's revenues come from local revenue which includes property taxes while the largest expenditures are for the center and categorical programs and pupil support services to the local districts which include a large number of itinerant staff.

The vocational education fund at year end had no restricted fund balance, while total fund balance of the vocational education fund was \$1,473,736. Total fund balance represents approximately 32% of total vocational education fund expenditures and operating transfers out.

The fund balance of the District's vocational education (career and technical education) fund decreased by \$830,440 from the prior year. These resources are restricted for career and technical education purposes. The largest portion of this fund's revenues comes from property taxes while the expenditures are for the programs at the Technical Center.

The capital projects fund was closed out during the year.

The cooperative education fund at year end had restricted fund balance of \$45,662, while total fund balance of the cooperative education fund was \$59,684. Restricted fund balance represents approximately 7% of total cooperative education fund expenditures and operating transfers out, while total fund balance represents approximately 9%.

The fund balance of the District's cooperative education fund increased by \$20,702 from the prior year. These resources are restricted to provide professional services to the local school districts within the intermediate school district. The largest portion of this fund's revenues comes from interdistrict sources while the expenditures are for the professional services provided.

Capital Asset and Debt Administration

Capital Assets – At the end of fiscal year 2011, the District had \$11.48 million invested in land, buildings, and office and instructional equipment. Of this amount, \$4.46 million in depreciation has been taken over the years. The District has net capital assets of \$7.02 million.

Mecosta-Osceola Intermediate School District's Capital Assets (Net of depreciation) June 30,		
	2011	2010
Land	\$ 110,235	\$ 110,235
Work in progress	-	1,419,078
Land improvements	87,538	74,854
Buildings and improvements	8,006,022	5,292,283
Buses and other vehicles	1,074,948	992,164
Furniture and equipment	2,198,903	2,130,571
Subtotal	11,477,646	10,019,185
Accumulated depreciation	4,455,606	4,155,565
Total	\$ 7,022,040	\$ 5,863,620

Additional information on the District's capital assets can be found in Note 6 of this report.

Long-term Debt - At the end of the current fiscal year, the District had a total bonded debt outstanding of \$74,989. Of this balance, \$74,989 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan.

The District's total bonded debt decreased by \$34,961 during the current fiscal year, with no new debt issuances. Additional information on the District's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future. In July, 2009 the Board of Education gave approval to begin construction on an addition to the Career Technical Center in an amount not to exceed \$2.7 million dollars. Funding for this instructional addition came from the CTE fund balance and operational budget. This project was completed this year totaling \$2.6 million dollars. We do not anticipate any major building improvements.

For 2011-2012, the State of Michigan was able to settle a budget prior to June 30, 2011. State sources of revenue total \$6.3 million of the budget. In the past, proration had affected our ability to budget with certainty. However, now with a budget in place prior to year end, we feel there is less of a possibility of having State Sources reduced mid-year. Any proration of these funds would have an impact on the long-term financial stability of the District and force reductions in services.

The District decreased fund balance over the past two years a total of \$1,985,862. The three major funds are projected, however, to utilize a portion of the fund balance for 2011-12. If the State's sluggish economy should continue, the District will be forced to reduce expenditures by cutting services and search for new revenue sources.

The Michigan Public School Employees Retirement System contribution increased to 20.66% in 2010-11, from 16.94% in 2009-10. It is projected to rise 19% for the 2011-12 school year to 24.46%. In addition, health insurance is expected to increase another 10-15% next year. If passed, pending legislation would give districts some relief by enacting caps and/or co-pay of premiums. This may lessen the disruption of financial stability as a result of the MPSERS increase.

Requests for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Emily Kearney, Accountant, Mecosta-Osceola ISD, 15760 190th Avenue, Big Rapids, MI 49307-9096.

BASIC FINANCIAL STATEMENTS

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011**

ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:	
Cash	\$ 7,818,841
Investments	353,283
Receivables:	
Accounts receivable	12,511
Taxes receivable	64,208
Due from other governmental units	2,381,263
Inventories	237,454
Prepaid expenditures	<u>188,801</u>
TOTAL CURRENT ASSETS	<u>11,056,361</u>
NONCURRENT ASSETS:	
Capital assets	11,477,646
Less accumulated depreciation	<u>(4,455,606)</u>
TOTAL NONCURRENT ASSETS	<u>7,022,040</u>
TOTAL ASSETS	<u><u>\$ 18,078,401</u></u>

LIABILITIES AND NET ASSETS	Governmental activities
CURRENT LIABILITIES:	
Accounts payable	\$ 537,799
Accrued salaries and related items	1,179,590
Accrued interest	446
Due to local school districts	422,685
Deferred revenue	207,382
Current portion of long-term obligations	36,623
Current portion of compensated absences	84,294
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TOTAL CURRENT LIABILITIES	2,468,819
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NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	38,366
Noncurrent portion of compensated absences	323,807
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TOTAL NONCURRENT LIABILITIES	362,173
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TOTAL LIABILITIES	2,830,992
	<hr/>
NET ASSETS:	
Invested in capital assets, net of related debt	6,947,051
Restricted for special and cooperative education	3,608,055
Unrestricted	4,692,303
	<hr/>
TOTAL NET ASSETS	15,247,409
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TOTAL LIABILITIES AND NET ASSETS	\$ 18,078,401
	<hr/> <hr/>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 7,225,976	\$ 564,958	\$ 6,222,167	\$ (438,851)
Support services	11,218,917	819,034	3,973,021	(6,426,862)
Community services	79,069	-	71,273	(7,796)
Transfers to school districts and other governmental units	3,798,005	-	-	(3,798,005)
Interest on long-term debt	5,027	-	-	(5,027)
Total governmental activities	<u>\$22,326,994</u>	<u>\$ 1,383,992</u>	<u>\$10,266,461</u>	<u>(10,676,541)</u>
General revenues:				
Property taxes, levied for general purposes				505,318
Property taxes, levied for special education				6,764,983
Property taxes, levied for vocational education				3,033,249
Investment earnings				24,013
State sources not restricted to specific purposes				772,821
Other				289,561
Total general revenues				<u>11,389,945</u>
CHANGE IN NET ASSETS				713,404
NET ASSETS, beginning of year				<u>14,534,005</u>
NET ASSETS, end of year				<u>\$ 15,247,409</u>

See notes to financial statements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENT FUNDS
JUNE 30, 2011**

	<u>Special revenue</u>				Total governmental funds
	<u>General fund</u>	<u>Special Education fund</u>	<u>Vocational Education fund</u>	<u>Other nonmajor governmental funds</u>	
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 1,853,932	\$ 4,729,963	\$ 1,229,237	\$ 5,709	\$ 7,818,841
Investments	55,412	216,770	81,101	-	353,283
Receivables:					
Property taxes receivable	3,248	41,460	19,500	-	64,208
Accounts receivable	6,798	-	3,152	2,561	12,511
Due from other governmental units	289,016	1,911,580	126,043	54,624	2,381,263
Due from other funds	-	-	1,239	-	1,239
Inventories	-	-	237,454	-	237,454
Prepaid expenditures	35,115	62,583	77,081	14,022	188,801
TOTAL ASSETS	<u>\$ 2,243,521</u>	<u>\$ 6,962,356</u>	<u>\$ 1,774,807</u>	<u>\$ 76,916</u>	<u>\$ 11,057,600</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 69,685	\$ 387,143	\$ 71,965	\$ 9,006	\$ 537,799
Accrued salaries and related items	38,181	942,528	191,894	6,987	1,179,590
Due to local school districts	9,487	395,486	17,712	-	422,685
Due to other funds	-	-	-	1,239	1,239
Deferred revenue	210,630	41,460	19,500	-	271,590
TOTAL LIABILITIES	<u>327,983</u>	<u>1,766,617</u>	<u>301,071</u>	<u>17,232</u>	<u>2,412,903</u>
FUND BALANCES:					
Nonspendable:					
Inventories	-	-	237,454	-	237,454
Prepaid expenses	35,115	62,583	77,081	14,022	188,801

See notes to financial statements.

	<u>Special revenue</u>				<u>Total governmental funds</u>
	<u>General fund</u>	<u>Special Education fund</u>	<u>Vocational Education fund</u>	<u>Other nonmajor governmental funds</u>	
Restricted for:					
Special Education	\$ -	\$ 3,562,393	\$ -	\$ -	\$ 3,562,393
Cooperative Education	-	-	-	45,662	45,662
Assigned for:					
Future expansion	-	-	796,454	-	796,454
Compensated absences	27,513	289,339	91,249	-	408,101
Subsequent year expenditures	-	1,281,424	271,498	-	1,552,922
Unassigned	<u>1,852,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,852,910</u>
TOTAL FUND BALANCES	<u>1,915,538</u>	<u>5,195,739</u>	<u>1,473,736</u>	<u>59,684</u>	<u>8,644,697</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,243,521</u>	<u>\$ 6,962,356</u>	<u>\$ 1,774,807</u>	<u>\$ 76,916</u>	<u>\$ 11,057,600</u>
Total governmental fund balances					\$ 8,644,697
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 are not reported in the funds					
The cost of the capital assets is				\$ 11,477,646	
Accumulated depreciation is				<u>(4,455,606)</u>	7,022,040
Other long-term assets are not available to pay for current period expenditures:					
Balance of tax receivable at June 30, 2010, less allowance for doubtful accounts, collected after September 1, 2010					64,208
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(74,989)
Compensated absences and termination benefits					(408,101)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid					<u>(446)</u>
Net assets of governmental activities					<u>\$ 15,247,409</u>

See notes to financial statements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Special revenue</u>		<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
		<u>Special Education fund</u>	<u>Vocational Education fund</u>		
REVENUES:					
Local sources:					
Property taxes	\$ 504,262	\$ 6,752,039	\$ 3,026,788	\$ -	\$ 10,283,089
Tuition	-	-	40,283	-	40,283
Investment earnings	4,874	15,200	3,939	-	24,013
Community service	10,168	592,656	-	-	602,824
Student activities	-	-	91,480	-	91,480
Other	102,453	2,432	567	-	105,452
Total local sources	621,757	7,362,327	3,163,057	-	11,147,141
State sources	1,087,409	5,061,383	153,135	40,196	6,342,123
Federal sources	519,257	3,818,181	383,936	-	4,721,374
Interdistrict sources	285,579	99,730	-	423,990	809,299
Total revenues	2,514,002	16,341,621	3,700,128	464,186	23,019,937
EXPENDITURES:					
Current:					
Instruction	529,790	4,680,009	1,889,015	-	7,098,814
Supporting services	1,207,969	8,124,628	1,292,169	635,621	11,260,387
Community service activities	74,926	2,722	1,421	-	79,069

See notes to financial statements.

	<u>Special revenue</u>				<u>Total governmental funds</u>
	<u>General Fund</u>	<u>Special Education fund</u>	<u>Vocational Education fund</u>	<u>Other nonmajor governmental funds</u>	
EXPENDITURES (Concluded):					
Debt service	\$ -	\$ -	\$ -	\$ 40,196	\$ 40,196
Capital outlay	-	-	-	1,202,183	1,202,183
Transfer to school districts and other governmental units	150,259	3,412,774	234,972	-	3,798,005
Total expenditures	<u>1,962,944</u>	<u>16,220,133</u>	<u>3,417,577</u>	<u>1,878,000</u>	<u>23,478,654</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>551,058</u>	<u>121,488</u>	<u>282,551</u>	<u>(1,413,814)</u>	<u>(458,717)</u>
OTHER FINANCING SOURCES (USES):					
Transfers from other funds	31,462	-	145,582	1,433,594	1,610,638
Transfers to other funds	<u>(226,897)</u>	<u>(125,168)</u>	<u>(1,258,573)</u>	<u>-</u>	<u>(1,610,638)</u>
Total other financing sources (uses)	<u>(195,435)</u>	<u>(125,168)</u>	<u>(1,112,991)</u>	<u>1,433,594</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	355,623	(3,680)	(830,440)	19,780	(458,717)
FUND BALANCES:					
Beginning of year	<u>1,559,915</u>	<u>5,199,419</u>	<u>2,304,176</u>	<u>39,904</u>	<u>9,103,414</u>
End of year	<u>\$ 1,915,538</u>	<u>\$ 5,195,739</u>	<u>\$ 1,473,736</u>	<u>\$ 59,684</u>	<u>\$ 8,644,697</u>

See notes to financial statements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES TO FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances total governmental funds \$ (458,717)

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

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(300,041)
Capital outlay	1,458,461

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Principal payment on bonds	34,961
Accrued interest payable, beginning of the year	654
Accrued interest payable, end of the year	(446)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(43,747)
Deferred revenue, end of the year	64,208

Compensated absences 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:

Accrued compensated absences and termination benefits, beginning of the year	366,172
Accrued compensated absences and termination benefits, end of the year	<u>(408,101)</u>

Change in net assets of governmental activities \$ 713,404

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mecosta-Osceola Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Mecosta-Osceola Intermediate School District (the "District") is governed by the Mecosta-Osceola Intermediate School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts - invested in capital assets, net of related debt and unrestricted net assets.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

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

The *special education special revenue fund* which accounts for special education programs.

The *vocational education special revenue fund* which accounts for technical education programs.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its cooperative education in a special revenue fund.

The *capital projects fund* accounts for the construction of major capital projects.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. This is maintained for the Durant debt.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

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

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

Modified Accrual Method (Concluded)

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

State Categorical Revenue

The District receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2011, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	0.2494
Special revenue funds:	
Special education fund	3.3395
Vocational education fund	1.4970

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Inventories of the vocational education fund are comprised principally of land held for resale and a house held for resale.

4. Receivables and payables

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

All receivables, including property taxes receivable, are shown net of an allowance for uncollectible amounts.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

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

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated absences

The District's policies generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

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

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

8. 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 regarding certain types of assets, liabilities, revenues, and expenditures. 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.

9. Fund Balance

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions”*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District’s Special Education, Vocational Education, and Cooperative Education fund balance is considered restricted.

Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special education and vocational education funds.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special education and vocational education funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2011. The District does not consider these amendments to be significant.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment pool-CMF	\$ 3,083	0.0027	AAAm	20.3%
MILAF External Investment pool-MAX	12,070	0.0027	AAAm	79.7%
Total fair value	<u>\$ 15,153</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2011, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District 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 District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’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.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2011, \$7,407,187 of the District’s bank balance of \$8,538,894 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$8,156,971.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

The District 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 allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits	\$ 8,156,971
Investments	<u>15,153</u>
	<u><u>\$ 8,172,124</u></u>

The above amounts are reported in the financial statements as follows:

District-wide:	
Cash	\$ 7,818,841
Investments	<u>353,283</u>
	<u><u>\$ 8,172,124</u></u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011 consist of the following:

	<u>Government wide</u>
State aid	\$ 1,007,049
Federal revenue	1,192,897
Local/intermediate sources	<u>181,317</u>
	<u><u>\$ 2,381,263</u></u>

No allowance for doubtful accounts is considered necessary based on previous experience.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Assets not being depreciated:				
Land	\$ 110,235	\$ -	\$ -	\$ 110,235
Work in progress	1,419,078	-	(1,419,078)	-
Subtotal	1,529,313	-	(1,419,078)	110,235
Other capital assets:				
Land improvements	74,854	12,684	-	87,538
Buildings and improvements	5,292,283	2,713,739	-	8,006,022
Buses and other vehicles	992,164	82,784	-	1,074,948
Furniture and equipment	2,130,571	68,332	-	2,198,903
Subtotal	8,489,872	2,877,539	-	11,367,411
Accumulated depreciation:				
Land improvements	24,832	3,874	-	28,706
Buildings and improvements	2,003,494	145,889	-	2,149,383
Buses and other vehicles	662,618	63,356	-	725,974
Office and instructional equipment	1,464,621	86,922	-	1,551,543
Subtotal	4,155,565	300,041	-	4,455,606
Net capital assets being depreciated	4,334,307	2,577,498	-	6,911,805
Net governmental capital assets	<u>\$5,863,620</u>	<u>\$2,577,498</u>	<u>\$(1,419,078)</u>	<u>\$ 7,022,040</u>

Depreciation for the fiscal year ended June 30, 2011 amounted to \$300,041. The District allocated depreciation to the various activities as follows:

Governmental activities:	
Instruction	\$ 177,141
Support services	<u>122,900</u>
Total governmental activities	<u>\$ 300,041</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT

The District issues bonds, notes, and other contractual commitments to fund for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Notes and installment purchase agreements are also general obligations to the District. Other long-term obligations include employee compensated absences.

Long-term obligations currently outstanding are as follows:

	Durant non-plaintiff bond	Employee- compensated absences	Total
	<u> </u>	<u> </u>	<u> </u>
Balance, July 1, 2010	\$ 109,950	\$ 366,172	\$ 476,122
Additions	-	44,254	44,254
Deletions	(34,961)	(2,325)	(37,286)
	<u> </u>	<u> </u>	<u> </u>
Balance, June 30, 2011	74,989	408,101	483,090
Less current portion	36,623	84,294	120,917
	<u> </u>	<u> </u>	<u> </u>
Total due after one year	<u>\$ 38,366</u>	<u>\$ 323,807</u>	<u>\$ 362,173</u>

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

1998 limited obligation bonds (Durant bonds) due in annual installments of \$36,623 to \$38,366 due May 15, 2013, with interest at 4.76%. Certain state aid payments have been pledged as security.	\$ 74,989
Compensated absences	<u>408,101</u>
Total general long-term debt	<u>\$ 483,090</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences as of June 30, 2011, including interest of \$5,398 are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 36,623	\$ 3,571	\$ 40,194
2013	38,366	1,827	40,193
	\$ 74,989	\$ 5,398	\$ 80,387

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were \$2,079,336, \$1,706,841, and \$1,606,464, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

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

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools 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. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

NOTE 9 - INTERFUND TRANSFERS

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

	Transfers Out			
	General fund	Special education fund	Vocational education fund	Total
Transfers in:				
General fund	\$ -	\$ 31,462	\$ -	\$ 31,462
Vocational education	72,791	72,791	-	145,582
Capital projects	-	-	1,201,261	1,201,261
Other nonmajor governmental funds	154,106	20,915	57,312	232,333
Total	<u>\$ 226,897</u>	<u>\$ 125,168</u>	<u>\$ 1,258,573</u>	<u>\$ 1,610,638</u>

Transfers provided funding for vocational education technology department, capital projects and operations and maintenance services. The transfer of \$1,201,261 was for a specific capital project.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2011 are as follows:

<u>Receivable fund</u>		<u>Payable funds</u>	
Vocational	\$ 1,239	Capital projects	\$ 1,239

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

REQUIRED SUPPLEMENTARY INFORMATION

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget - positive (negative)</u>
REVENUES:				
Local sources	\$ 625,420	\$ 631,803	\$ 621,757	\$ (10,046)
State sources	889,846	1,326,719	1,087,409	(239,310)
Federal sources	518,972	822,797	519,257	(303,540)
Interdistrict sources	338,196	291,488	285,579	(5,909)
Total revenues	<u>2,372,434</u>	<u>3,072,807</u>	<u>2,514,002</u>	<u>(558,805)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	307,218	358,230	336,642	21,588
Added needs	248,883	396,207	193,148	203,059
Total instruction	<u>556,101</u>	<u>754,437</u>	<u>529,790</u>	<u>224,647</u>
Supporting services:				
Pupil	158,567	210,862	135,112	75,750
Instructional staff	262,840	390,410	301,955	88,455
General administration	207,562	273,618	235,175	38,443
Business	298,168	269,167	249,715	19,452
Operation/maintenance	156,406	193,107	148,326	44,781
Pupil transportation	16,000	23,151	8,627	14,524
Central	309,628	227,287	124,649	102,638
Other support services	-	5,000	4,410	590
Total supporting services	<u>1,409,171</u>	<u>1,592,602</u>	<u>1,207,969</u>	<u>384,633</u>
Community services	71,057	109,198	74,926	34,272
Facilities acquisition	8,000	8,000	-	8,000
Transfer to school districts and other governmental units	156,782	149,158	150,259	(1,101)
Total expenditures	<u>2,201,111</u>	<u>2,613,395</u>	<u>1,962,944</u>	<u>650,451</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>171,323</u>	<u>459,412</u>	<u>551,058</u>	<u>91,646</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	-	-	31,462	31,462
Transfers to other funds	(172,046)	(270,296)	(226,897)	43,399
Total other financing sources (uses)	<u>(172,046)</u>	<u>(270,296)</u>	<u>(195,435)</u>	<u>74,861</u>
NET CHANGE IN FUND BALANCE	<u>\$ (723)</u>	<u>\$ 189,116</u>	<u>355,623</u>	<u>\$ 166,507</u>
FUND BALANCE:				
Beginning of year			<u>1,559,915</u>	
End of year			<u>\$ 1,915,538</u>	

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2011**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget - positive (negative)
REVENUES:				
Local sources	\$ 7,597,291	\$ 7,497,350	\$ 7,362,327	\$ (135,023)
State sources	4,280,810	5,043,782	5,061,383	17,601
Federal sources	3,906,798	4,129,648	3,818,181	(311,467)
Interdistrict sources	107,200	107,200	99,730	(7,470)
Total revenues	<u>15,892,099</u>	<u>16,777,980</u>	<u>16,341,621</u>	<u>(436,359)</u>
EXPENDITURES:				
Instruction:				
Added needs	<u>4,651,881</u>	<u>4,787,998</u>	<u>4,680,009</u>	<u>107,989</u>
Supporting services:				
Pupil	5,589,882	5,544,955	5,398,648	146,307
Instructional staff	753,445	753,474	701,723	51,751
General administration	109,616	109,455	96,721	12,734
Business	550,891	558,303	531,101	27,202
Operation/maintenance	307,251	323,776	273,718	50,058
Pupil transportation	1,087,471	986,767	985,856	911
Central	<u>185,273</u>	<u>193,066</u>	<u>136,861</u>	<u>56,205</u>
Total supporting services	<u>8,583,829</u>	<u>8,469,796</u>	<u>8,124,628</u>	<u>345,168</u>
Community services	<u>2,850</u>	<u>3,317</u>	<u>2,722</u>	<u>595</u>
Transfer to school districts and other governmental units	<u>3,489,392</u>	<u>3,644,365</u>	<u>3,412,774</u>	<u>231,591</u>
Total expenditures	<u>16,727,952</u>	<u>16,905,476</u>	<u>16,220,133</u>	<u>685,343</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(835,853)</u>	<u>(127,496)</u>	<u>121,488</u>	<u>248,984</u>
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	<u>(80,346)</u>	<u>(103,208)</u>	<u>(125,168)</u>	<u>(21,960)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (916,199)</u>	<u>\$ (230,704)</u>	<u>(3,680)</u>	<u>\$ 227,024</u>
FUND BALANCE:				
Beginning of year			<u>5,199,419</u>	
End of year			<u>\$ 5,195,739</u>	

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
VOCATIONAL EDUCATION FUND
YEAR ENDED JUNE 30, 2011**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget - positive (negative)</u>
REVENUES:				
Local sources	\$ 3,181,760	\$ 3,174,275	\$ 3,163,057	\$ (11,218)
State sources	80,140	139,335	153,135	13,800
Federal sources	385,909	385,909	383,936	(1,973)
Total revenues	<u>3,647,809</u>	<u>3,699,519</u>	<u>3,700,128</u>	<u>609</u>
EXPENDITURES:				
Instruction:				
Added needs	1,962,951	1,979,842	1,877,988	101,854
Adult education	65,745	43,545	11,027	32,518
	<u>2,028,696</u>	<u>2,023,387</u>	<u>1,889,015</u>	<u>134,372</u>
Supporting services:				
Pupil	238,746	231,224	213,444	17,780
Instructional staff	82,760	82,760	15,639	67,121
General administration	67,489	65,249	59,386	5,863
School administration	181,226	217,634	207,962	9,672
Business	227,550	229,316	197,616	31,700
Operation/maintenance	375,399	369,319	322,912	46,407
Central	245,332	245,242	241,436	3,806
Other	45,509	45,509	33,774	11,735
Total supporting services	<u>1,464,011</u>	<u>1,486,253</u>	<u>1,292,169</u>	<u>194,084</u>
Community services	2,000	2,000	1,421	579
Transfer to school districts and other governmental units	234,972	234,972	234,972	-
Total expenditures	<u>3,729,679</u>	<u>3,746,612</u>	<u>3,417,577</u>	<u>329,035</u>
EXCESS (DEFICIENCIES) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(81,870)</u>	<u>(47,093)</u>	<u>282,551</u>	<u>329,644</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	160,700	160,700	145,582	(15,118)
Transfers to other funds	(943,000)	(1,262,960)	(1,258,573)	4,387
Total other financing uses	<u>(782,300)</u>	<u>(1,102,260)</u>	<u>(1,112,991)</u>	<u>(10,731)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (864,170)</u>	<u>\$ (1,149,353)</u>	<u>(830,440)</u>	<u>\$ 318,913</u>
FUND BALANCE:				
Beginning of year			<u>2,304,176</u>	
End of year			<u>\$ 1,473,736</u>	

ADDITIONAL INFORMATION

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUND TYPES
 JUNE 30, 2011**

	<u>Cooperative education special revenue fund</u>	<u>Capital project fund</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ -	\$ 5,709	\$ 5,709
Accounts receivable	2,561	-	2,561
Due from other governmental units	54,624	-	54,624
Prepaid expenditures	14,022	-	14,022
	<u>14,022</u>	<u>-</u>	<u>14,022</u>
TOTAL ASSETS	<u>\$ 71,207</u>	<u>\$ 5,709</u>	<u>\$ 76,916</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 4,536	\$ 4,470	\$ 9,006
Accrued salaries and related items	6,987	-	6,987
Due to other funds	-	1,239	1,239
	<u>-</u>	<u>1,239</u>	<u>1,239</u>
TOTAL LIABILITIES	<u>11,523</u>	<u>5,709</u>	<u>17,232</u>
FUND BALANCES:			
Nonspendable prepaid expenditures	14,022	-	14,022
Restricted	45,662	-	45,662
	<u>45,662</u>	<u>-</u>	<u>45,662</u>
Total fund balances	<u>59,684</u>	<u>-</u>	<u>59,684</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 71,207</u>	<u>\$ 5,709</u>	<u>\$ 76,916</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2011**

	Cooperative education special revenue fund	Capital projects fund	Debt service fund - Durant	Total nonmajor governmental funds
REVENUES:				
State sources	\$ -	\$ -	\$ 40,196	\$ 40,196
Interdistrict sources	423,990	-	-	423,990
Total revenues	<u>423,990</u>	<u>-</u>	<u>40,196</u>	<u>464,186</u>
EXPENDITURES:				
Support services:				
Pupil	44,284	-	-	44,284
Instructional staff	144,584	-	-	144,584
General administration	27,613	-	-	27,613
Business	67,921	-	-	67,921
Operation/maintenance	114,885	-	-	114,885
Transportation	39,072	-	-	39,072
Central support	197,262	-	-	197,262
Capital outlay	-	1,202,183	-	1,202,183
Debt service:				
Principal	-	-	34,961	34,961
Interest	-	-	5,235	5,235
Total expenditures	<u>635,621</u>	<u>1,202,183</u>	<u>40,196</u>	<u>1,878,000</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(211,631)</u>	<u>(1,202,183)</u>	<u>-</u>	<u>(1,413,814)</u>
OTHER FINANCING SOURCES:				
Transfers from other funds	<u>232,333</u>	<u>1,201,261</u>	<u>-</u>	<u>1,433,594</u>
NET CHANGE IN FUND BALANCES	20,702	(922)	-	19,780
FUND BALANCES:				
Beginning of year	<u>38,982</u>	<u>922</u>	<u>-</u>	<u>39,904</u>
End of year	<u>\$ 59,684</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,684</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
DURANT NON-PLANTIFF BOND
JUNE 30, 2011**

1998 Refunding Bonds

<u>Year ending June 30,</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2012	\$ 36,623	\$ 3,571	\$ 40,194
2013	38,366	1,827	40,193
	<u>\$ 74,989</u>	<u>\$ 5,398</u>	<u>\$ 80,387</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorized the payment of the State Aid Payments directly to the Authority's Depository.

MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2011

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

To the Board of Education
Mecosta-Osceola Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2011, which collectively comprise Mecosta-Osceola Intermediate School District's basic financial statements and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District'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 an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Mecosta-Osceola Intermediate School District in a separate letter dated September 27, 2011.

This report is intended for the information and use of the Board of Education, management and U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Manes Costeiran PC

September 27, 2011

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

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Mecosta-Osceola Intermediate School District

Compliance

We have audited Mecosta-Osceola Intermediate School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mecosta-Osceola Intermediate School District's major federal programs for the year ended June 30, 2011. Mecosta-Osceola Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mecosta-Osceola Intermediate School District's management. Our responsibility is to express an opinion on Mecosta-Osceola Intermediate School District's compliance based on our audit.

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

In our opinion, Mecosta-Osceola Intermediate School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mecosta-Osceola Intermediate School District' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Maney Costeiran PC

September 27, 2011

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) 7/1/10	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/11
<u>U.S Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I Part D	84.013	101700-0910	\$ 416,592	\$ 22,368	\$ 347,046	\$ 22,368	\$ -	\$ -
		111700-1011	412,909	-	-	166,989	174,107	7,118
			829,501	22,368	347,046	189,357	174,107	7,118
ARRA Title I	84.389	101705-0910	195,371	8,517	62,529	18,971	10,454	-
		111705-1011	122,388	-	-	78,673	106,953	28,280
			317,759	8,517	62,529	97,644	117,407	28,280
Special Education Cluster:								
IDEA	84.027	090450-0809	2,132,892	21,308	94,291	21,308	-	-
		100450-0910	2,209,058	356,047	2,140,416	406,283	68,645	18,409
		110450-1011	2,193,040	-	-	1,575,384	2,105,280	529,896
		100480-EOSD	50,000	100	50,000	100	-	-
		110480-EOSD	50,000	-	-	49,900	50,000	100
		100490-TS	51,250	9,097	51,250	9,097	-	-
		110490-TS	40,000	-	-	26,573	37,770	11,197
			6,726,240	386,552	2,335,957	2,088,645	2,261,695	559,602
Preschool Incentive	84.173	100460-0910	96,664	15,428	82,098	29,894	14,566	100
		110460-1011	96,527	-	-	65,437	94,158	28,721
			193,191	15,428	82,098	95,331	108,724	28,821
ARRA IDEA	84.391	100455-0910	2,346,255	232,900	908,965	1,065,491	1,243,818	411,227
ARRA Preschool Incentive	84.392	100465-0910	39,769	14,475	-	34,832	34,195	13,838
Total Special Education Cluster			9,305,455	649,355	3,327,020	3,284,299	3,648,432	1,013,488

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) 7/1/10	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/11
<u>U.S Department of Education (Continued):</u>								
Passed through Michigan Department of Education (Concluded):								
Vocational Education - Basic Grants to States (Perkins II):	84.048	103520-10127	\$ 350,320	\$ 139,884	\$ 344,320	\$ 145,884	\$ 6,000	\$ -
		113520-11127	376,458	-	-	270,919	376,458	105,539
		103530-10107	9,451	1,534	1,534	1,534	-	-
		113530-11107	9,451	-	-	1,478	1,478	-
Total Perkins			745,680	141,418	345,854	419,815	383,936	105,539
Infant Toddler Formula	84.181	101340-190	88,827	64,121	64,121	87,106	22,985	-
		111340-190	88,017	-	-	57,792	58,493	701
			176,844	64,121	64,121	144,898	81,478	701
ARRA Infant Toddler Formula	84.393	101345-190	66,482	3,824	22,930	41,218	43,552	6,158
Total Infant Toddler Cluster			243,326	67,945	87,051	186,116	125,030	6,859
Homeless Children & Youths	84.196	102320-0910	59,256	5,284	54,355	5,491	207	-
		102320-1011C	4,694	-	-	3,647	4,183	536
		112320-1011	67,275	-	-	18,468	23,615	5,147
			131,225	5,284	54,355	27,606	28,005	5,683
ARRA Homeless Children & Youths	84.387	102325-0910	83,603	7,445	14,511	46,321	47,488	8,612
Total Homeless Children & Youth Cluster			214,828	12,729	68,866	73,927	75,493	14,295
Improving Teacher Quality	84.367	110250-1011	724	-	-	100	100	-
Education Jobs Fund	84.410	112545-1011	48,655	-	-	35,269	48,655	13,386
Total passed through Michigan Department of Education			11,705,928	902,332	4,238,366	4,286,527	4,573,160	1,188,965

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) 7/1/10	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/11
<u>U.S Department of Education (Concluded):</u>								
Passed through Calhoun ISD:								
Enhancing Education through Technology	84.318	094260-1011	\$ 8,000	\$ -	\$ -	\$ 8,000	\$ 8,000	\$ -
Passed through Oakland School District:								
ARRA Enhancing Education through Technology	84.386		100,000	21,367	21,367	28,250	62,661	55,778
Total Enhancing Education through Technology Cluster			108,000	21,367	21,367	36,250	70,661	55,778
Direct Program								
Rural Education Achievement Program	84.358A	S358A107767	41,125	-	-	28,902	32,834	3,932
Total passed through U.S. Department of Education			11,855,053	923,699	4,259,733	4,351,679	4,676,655	1,248,675
Passed through Saginaw Valley State University:								
Title II B-1 Mathematics & Science Partnership	84.366B		38,388	13,801	38,388	13,801	-	-
<u>U.S. Department of Health and Human Services:</u>								
Passed through Michigan Department of Community Health								
Medicaid - Administrative Outreach Claiming	93.778		44,719	13,475	72,580	58,194	44,719	-
Total Federal Awards			\$11,938,160	\$950,975	\$ 4,370,701	\$4,423,674	\$ 4,721,374	\$ 1,248,675

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Subrecipient award / contract amount	Due to (from) subrecipient 7/1/10	(Memo only) subrecipient prior year expenditures	Subrecipient current year expenditures	Current year cash transferred to subrecipient	Due to (from) subrecipient 6/30/11
U.S. Department of Education:							
Passed through the Michigan Department of Education:							
Perkins Vocational Education Regional Allocation -	84.048						
Project number 103520-10127 - Passed through to:							
Mason-Lake ISD		\$ 108,687	\$ 62,926	\$ 108,687	\$ -	\$ -	\$ -
Newaygo ISD		108,687	51,661	108,687	-	-	-
		<u>217,374</u>	<u>114,587</u>	<u>217,374</u>	<u>-</u>	<u>-</u>	<u>-</u>
Project number 113520-11127 - Passed through to:							
Mason-Lake ISD		117,486	-	-	117,486	117,486	-
Newaygo ISD		117,486	-	-	117,486	99,774	17,712
		<u>234,972</u>	<u>-</u>	<u>-</u>	<u>234,972</u>	<u>217,260</u>	<u>17,712</u>
Total Perkins Regional Allocation		<u>452,346</u>	<u>114,587</u>	<u>217,374</u>	<u>234,972</u>	<u>217,260</u>	<u>17,712</u>
IDEA Part B Flowthrough ARRA of 2009	84.391						
Project number 100455-0910 - Passed through to:							
Big Rapids Public Schools		470,619	37,759	207,224	206,384	206,384	-
Chippewa Hills School District		650,762	-	268,922	323,570	323,570	-
Crossroads Charter Academy		28,434	-	9,652	18,782	18,782	-
Evert Public Schools		353,700	-	176,422	177,278	117,893	59,385
Morley Stanwood Community Schools		426,770	-	92,992	298,167	298,167	-
Reed City Area Public Schools		368,527	-	138,153	187,823	174,737	13,086
		<u>2,298,812</u>	<u>37,759</u>	<u>893,365</u>	<u>1,212,004</u>	<u>1,139,533</u>	<u>72,471</u>

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Subrecipient award / contract amount	Due to (from) subrecipient 7/1/10	(Memo only) subrecipient prior year expenditures	Subrecipient current year expenditures	Current year cash transferred to subrecipient	Due to (from) subrecipient 6/30/11
<u>U.S. Department of Education (Concluded):</u>							
Passed through the Michigan Department of Education (Concluded):							
IDEA Preschool Incentive ARRA of 2009	84.392						
Project number 100465-0910 - Passed through to:							
Big Rapids Public Schools		\$ 23,730	\$ 5,253	\$ 11,931	\$ 9,617	\$ 9,617	\$ -
Chippewa Hills School District		32,037	-	16,305	13,344	13,344	-
Ewart Public Schools		22,771	-	11,533	11,234	8,369	2,865
		<u>78,538</u>	<u>5,253</u>	<u>39,769</u>	<u>34,195</u>	<u>31,330</u>	<u>2,865</u>
Total IDEA Allocation		<u>2,377,350</u>	<u>43,012</u>	<u>933,134</u>	<u>1,246,199</u>	<u>1,170,863</u>	<u>75,336</u>
Total passed through the Michigan Department of Education			<u>2,829,696</u>	<u>157,599</u>	<u>1,150,508</u>	<u>1,481,171</u>	<u>93,048</u>
<u>U.S. Department of Health and Human Services:</u>							
Medicaid Administrative Outreach:	93.778						
Passed through to:							
Big Rapids Public Schools		4,361	-	-	4,361	4,361	-
Chippewa Hills School District		4,641	-	-	4,641	4,641	-
Crossroads Charter Academy		909	-	-	909	909	-
Ewart Public Schools		2,094	-	-	2,094	2,094	-
Morley Stanwood Community Schools		3,055	-	-	3,055	3,055	-
Reed City Area Public Schools		3,771	-	-	3,771	3,771	-
		<u>18,831</u>	<u>-</u>	<u>-</u>	<u>18,831</u>	<u>18,831</u>	<u>-</u>
Total Medicaid Administrative Outreach		<u>18,831</u>	<u>-</u>	<u>-</u>	<u>18,831</u>	<u>18,831</u>	<u>-</u>
Total federal funds passed through to subrecipients		<u>\$2,848,527</u>	<u>\$ 157,599</u>	<u>\$ 1,150,508</u>	<u>\$1,500,002</u>	<u>\$ 1,406,954</u>	<u>\$ 93,048</u>

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activities of Mecosta-Osceola Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Special Education Cluster (CFDA #84.027, 84.173, 84.391 and #84.392), and ARRA Title I (CFDA #84.389) were audited as a major programs representing 80% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The expenditures on the schedule of expenditures of federal awards do not include local match.
5. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).
6. Management has utilized the Grant Auditors' Report in preparing the Schedule of Expenditures of Federal Awards.
7. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 519,257
Special Education Fund	3,818,181
Vocational Education Fund	<u>383,936</u>
 Expenditures per Schedule of Expenditures of Federal Awards	 <u><u>\$4,721,374</u></u>

8. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Mecosta-Osceola Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass-through amounts.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance Sections 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173, 84.391 & 84.392 84.389	Special Education Cluster ARRA Title I

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

There were no findings for the prior year.

September 27, 2011

To the Board of Education
Mecosta-Osceola Intermediate School District

In planning and performing our audit of the financial statements of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 27, 2011 on the financial statements of Mecosta-Osceola Intermediate School District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Review of Internet Usage Policy

Employee access to, and use of, the District's Internet resources has increased significantly. Thus, now is a good time to develop or review an official district policy on acceptable use of the Internet. A sound policy can help limit misuse of the Internet and perhaps provide a basis for legal action, should that be necessary. The policy should be communicated to employees on a regular basis. The following are some matters the policy should cover:

- Internet access includes viewing websites, sending and receiving email, transmitting or receiving electronic files, running Internet applications such as games on the District-provided network or Internet, etc.
- Appropriate use of the Internet includes business-related communication with customers, vendors, and other employees; research; information retrieval; and other business-related tasks.
- Inappropriate, prohibited use of the Internet includes accessing or downloading obscene, sexually explicit, pornographic, or politically subversive material; sending or forwarding profane, obscene, sexually explicit, discriminatory, or harassing material; disseminating proprietary or confidential District information or trade secrets without authorization; downloading software subject to licensing restrictions in violation of intellectual property rights; or using the Internet for personal gain, illegal or unauthorized political activity, or to maliciously alter, damage, or destroy information.

- All electronic documents created or stored on, and all communications using, the District's computers are the District's property. Employees should not expect their communications using the District's systems to be private or confidential. The District may access those documents or communications when warranted by business needs or legal requirements. Also, the District can monitor its systems to ensure proper use and prevent security violations.
- Personal use of the Internet (such as for browsing, shopping, playing games, or sending personal email) should be deferred to nonbusiness hours if possible and be kept to a minimum when use is unavoidable during business hours. Personal use should at all times (during business or nonbusiness hours) conform to the above-stated District policies concerning inappropriate, prohibited use.
- Files transferred in should be checked for viruses before being opened.
- Violations of the Internet policy may result in restriction or loss of access, termination, and notification of appropriate authorities if there is evidence of illegal activity.

Changes in employer and employee pension contributions

During the past fiscal year there have numerous changes to the contribution rates as well the addition of the pension plus plan for new employees. The amounts required to be contributed by the District and employees now vary depending on date of hire and the type of plan employees are in.

We perform limited tests to determine the overall reasonableness of the District's pension contributions. While we found no errors in our testing we recommend controls would be improved if there were periodic reviews of the employer and employee contribution calculations to determine all employee records are accurate and the proper amount of withholding and contributions are being made based on these numerous changes.

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

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Manes Costeiran PC

September 27, 2011

To the Board of Education
Mecosta-Osceola Intermediate School District

We have audited the financial statements of Mecosta-Osceola Intermediate School District for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement 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 Mecosta-Osceola Intermediate School District's financial statements are free of material misstatement, we performed test 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 was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Mecosta-Osceola Intermediate School District'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 Mecosta-Osceola Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Mecosta-Osceola Intermediate School District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 5, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mecosta-Osceola Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011, except for the adoption of GASB 54 (*Fund Balance Reporting and Governmental Fund Type Definitions*). We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 the financial statements was:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$408,000. In addition, certain amounts included in the assets have been based on outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District'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 District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Mecosta-Osceola Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner Costeiran PC