

Berrien Regional Education Service Agency

**Financial Report
with Supplemental Information
June 30, 2011**

Berrien Regional Education Service Agency

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Independent Auditor's Report

To the Board of Education
Berrien Regional Education Service Agency

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Regional Education Service Agency (the "Agency") as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Berrien Regional Education Service Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Berrien Regional Education Service Agency as of June 30, 2011 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year, the Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note I. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB No. 54.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Berrien Regional Education Service Agency

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berrien Regional Education Service Agency's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental 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.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 27, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions 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.

Alante & Morse, PLLC

September 27, 2011

Berrien Regional Education Service Agency

Management's Discussion and Analysis

This section of Berrien Regional Education Service Agency's (the "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2011. Please read it in conjunction with the Agency's financial statements, which immediately follow this section.

Using this Annual Report

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

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Berrien Regional Education Service Agency

Management's Discussion and Analysis (Continued)

Reporting the Agency as a Whole - Government-wide Financial Statements

One of the most important questions asked about the Agency is, "As a whole, what is the Agency's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Agency's financial statements, report information on the Agency as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the Agency's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Agency's operating results. However, the Agency's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Agency. The statement of net assets and the statement of activities report the governmental activities for the Agency, which encompass all of the Agency's services, including instruction, support services, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Agency's Most Significant Funds - Fund Financial Statements

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

- **Governmental Funds** - All of the Agency's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Agency and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Berrien Regional Education Service Agency

Management's Discussion and Analysis (Continued)

The Agency as Trustee - Reporting the Agency's Fiduciary Responsibilities

The Agency is the trustee, or fiduciary, for its student activity funds. All of the Agency's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Agency's other financial statements because the Agency cannot use these assets to finance its operations. The Agency is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Agency as a Whole

Recall that the statement of net assets provides the perspective of the Agency as a whole. Table I provides a summary of the Agency's net assets as of June 30, 2011:

TABLE I

	Governmental Activities	
	June 30	
	2011	2010
	(in millions)	
Assets		
Current and other assets	\$ 16.3	\$ 13.7
Capital assets	9.4	9.6
Total assets	25.7	23.3
Liabilities		
Current liabilities	6.4	6.0
Long-term liabilities	0.5	0.8
Total liabilities	6.9	6.8
Net Assets		
Invested in capital assets - Net of related debt	8.9	9.0
Restricted	7.2	4.7
Unrestricted	2.7	2.8
Total net assets	<u>\$ 18.8</u>	<u>\$ 16.5</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Agency's governmental activities is discussed below. The Agency's net assets were \$18.8 million at June 30, 2011. Capital assets, net of related debt totaling \$8.9 million, compares the original cost, less depreciation of the Agency's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net assets are to be used for the exclusive purpose of special education and school services, totaling \$7.2 million. The remaining amount of net assets (\$2.7 million) was unassigned.

Berrien Regional Education Service Agency

Management's Discussion and Analysis (Continued)

The \$2.7 million in unassigned net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Agency to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Agency as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for the fiscal years ended June 30, 2011 and 2010.

TABLE 2

	Governmental Activities	
	2011	2010
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.9	\$ 2.4
Operating grants and contributions	22.3	20.8
General revenue:		
Property taxes	16.8	16.8
State foundation allowance	1.8	1.7
Other	1.5	1.6
Total revenue	44.3	43.3
Functions/Program Expenses		
Administration Center	27.1	25.7
Blossomland Learning Center	6.9	6.7
Lighthouse Education Center	4.2	4.3
Juvenile Center	0.4	0.8
Transportation Center	3.0	3.0
Depreciaton (unallocated)	0.4	0.5
Total functions/program expenses	42.0	41.0
Increase in Net Assets	2.3	2.3
Net Assets - Beginning of year	16.5	14.2
Net Assets - End of year	\$ 18.8	\$ 16.5

As reported in the statement of activities, the cost of all of our governmental activities this year was \$42 million. Certain activities were partially funded from those who benefited from the programs (\$1.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$22.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$16.8 million in taxes, \$1.8 million in state foundation allowance, and with our other revenue, i.e., interest and general entitlements.

Berrien Regional Education Service Agency

Management's Discussion and Analysis (Continued)

The Agency experienced an increase in net assets of \$2.3 million. Key reasons for the change in net assets were increased Medicaid fee-for-service revenue, increased American Recovery and Reinvestment Act (ARRA) revenue, and a reduction in staff.

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

The Agency's Funds

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

As the Agency completed this year, the governmental funds reported a combined fund balance of \$9.4 million, which is an increase of \$2.4 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance remained stable from the prior years, remaining at \$2.2 million. General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds increased compared to the prior year, showing a net increase of approximately \$2.4 million. This increase was due to increased Medicaid fee-for-service revenue, increased American Recovery and Reinvestment Act (ARRA) revenue, and a reduction in staff.

General Fund Budgetary Highlights

Over the course of the year, the Agency revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Agency's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were minor revisions made to the 2010-2011 General Fund original budget. Budgeted revenue was increased \$0.06 million due to Homeless grant carryover, ARRA grant carryover, and the Regional Data Initiative (RDI) grant.

Budgeted expenditures were increased \$0.2 million to account for expenditures associated with the revenue increases in the above grants, increased data center expenditures, and reclassification of staff from the Special Education Fund to the General Fund.

Berrien Regional Education Service Agency

Management's Discussion and Analysis (Continued)

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the Agency had \$9.4 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$.2 million, or 2 percent, from last year.

	2011	2010
Land	\$ 237,753	\$ 237,753
Buildings and building improvements	14,471,117	14,300,442
Furniture and equipment	2,112,001	2,072,237
Total capital assets	16,820,871	16,610,432
Less accumulated depreciation	(7,409,512)	(6,983,971)
Net capital assets	<u>\$ 9,411,359</u>	<u>\$ 9,626,461</u>

This year's additions of \$233,584 included two computer servers, a van, and heater boilers. No debt was issued for these additions.

Several major capital projects are planned for the 2011-2012 fiscal year. We anticipate capital additions will be approximately \$0.5 million greater than the 2010-2011 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Agency had \$.5 million in bonds outstanding versus \$.7 million in the previous year - a change of 21 percent. Those bonds consisted of the following:

	2011	2010
Durant Non-plaintiff Bond	<u>\$ 527,032</u>	<u>\$ 664,109</u>

The other obligations include accrued vacation pay. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Berrien Regional Education Service Agency

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Agency's fiscal budget. One of the most important factors affecting the operating budget is state aid and property tax revenue provided to the Agency. Approximately 26 percent of the total General Fund revenue is from state aid and approximately 17 percent of total General Fund revenue is from local property taxes. Under state law, the Agency cannot assess additional property tax revenue for general operations.

Similarly, approximately 20 percent of total Special Education Fund revenue is from state aid and approximately 43 percent of total Special Education Fund revenue is from local property taxes. Subject to voter approval, the Agency could assess additional property tax revenue for special education operations; however, there is insufficient support from our local school districts to pursue this.

Since the Agency's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to public school districts, intermediate school districts, and regional education service agencies and how the State determines its funding allocation to each.

While the State's school districts have been fortunate during this economic downturn to have access to additional federal funding (i.e., ARRA and Education Jobs), these will expire soon after 2010-2011. It is expected that recent significant increases in retirement and insurance expenditures by school districts will have longer-lasting effects that outlive these stimulus funds. The greater fear for Michigan school districts is the impending "funding cliff" beyond 2010-2011 and Michigan's history of reacting to funding shortfalls with one-time fixes rather than proactively restructuring the manner in which it funds public education.

Berrien Regional Education Service Agency

Statement of Net Assets June 30, 2011

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 9,423,356
Receivables - Net (Note 4)	6,810,707
Inventories	53,811
Prepaid costs	4,022
Capital assets - Net (Note 5)	9,411,359
Total assets	25,703,255
Liabilities	
Accounts payable	1,171,811
Accrued payroll and other liabilities	4,508,223
Deferred revenue (Note 4)	596,960
Noncurrent liabilities (Note 7):	
Due within one year	143,596
Due in more than one year	506,479
Total liabilities	6,927,069
Net Assets	
Invested in capital assets - Net of related debt	8,884,327
Restricted for special education and school service	7,183,011
Unrestricted	2,708,848
Total net assets	<u>\$ 18,776,186</u>

Berrien Regional Education Service Agency

Statement of Activities Year Ended June 30, 2011

	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Administration Center	\$ 27,135,718	\$ 1,637,602	\$ 13,016,044	\$ (12,482,072)
Blossomland Learning Center	6,909,840	14,267	5,729,077	(1,166,496)
Lighthouse Education Center	4,183,188	4,500	2,985,144	(1,193,544)
Juvenile Center	377,453	-	660,207	282,754
Transportation Center	2,994,500	267,809	-	(2,726,691)
Interest	20,526	-	-	(20,526)
Depreciation (unallocated)	448,686	-	-	(448,686)
Total primary government	\$ 42,069,911	\$ 1,924,178	\$ 22,390,472	(17,755,261)
General revenue:				
Taxes - Property taxes - Levied for general purposes				16,769,350
State aid not restricted to specific purposes				1,760,389
Interest and investment earnings				53,552
Other				1,421,942
Total general revenue				20,005,233
Change in Net Assets				2,249,972
Net Assets - Beginning of year				16,526,214
Net Assets - End of year				\$ 18,776,186

Berrien Regional Education Service Agency

Governmental Funds Balance Sheet June 30, 2011

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 2,404,921	\$ 6,698,222	\$ 320,213	\$ 9,423,356
Receivables (Note 4)	855,890	5,949,787	5,030	6,810,707
Inventories	43,431	6,099	4,281	53,811
Prepaid costs and other assets	-	-	4,022	4,022
Total assets	<u>\$ 3,304,242</u>	<u>\$12,654,108</u>	<u>\$ 333,546</u>	<u>\$ 16,291,896</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 632,175	\$ 516,186	\$ 23,450	\$ 1,171,811
Other accrued liabilities	127,056	2,235,627	-	2,362,683
Due to local school districts	-	1,966,271	-	1,966,271
Deferred revenue (Note 4)	357,418	823,567	239,542	1,420,527
Total liabilities	1,116,649	5,541,651	262,992	6,921,292
Fund Balances				
Nonspendable:				
Inventories	43,431	6,099	4,281	53,811
Prepaid costs	-	-	4,022	4,022
Restricted:				
School service	-	-	62,251	62,251
Special education (Note 10)	-	7,106,358	-	7,106,358
Assigned:				
Data Center	179,903	-	-	179,903
Administrative Center improvements	35,000	-	-	35,000
Health and medical	250,000	-	-	250,000
2011-2012 budgeted operating deficit	248,894	-	-	248,894
Unassigned	1,430,365	-	-	1,430,365
Total fund balances	<u>2,187,593</u>	<u>7,112,457</u>	<u>70,554</u>	<u>9,370,604</u>
Total liabilities and fund balances	<u>\$ 3,304,242</u>	<u>\$12,654,108</u>	<u>\$ 333,546</u>	<u>\$ 16,291,896</u>

Berrien Regional Education Service Agency

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2011

Fund Balance Reported in Governmental Funds \$ 9,370,604

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 governmental funds:

Cost of capital assets	\$ 16,820,871	
Accumulated depreciation	<u>(7,409,512)</u>	9,411,359

Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds 823,567

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable	(527,032)	
Compensated absences	<u>(123,043)</u>	<u>(650,075)</u>

Insurance reserve payable is not included as a liability in the governmental funds - Health, dental, and optical (179,269)

Net Assets of Governmental Activities **\$ 18,776,186**

Berrien Regional Education Service Agency

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

	General Fund	Special Education Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 2,384,312	\$ 18,533,524	\$ 74,353	\$ 20,992,189
State sources	1,966,061	7,068,240	182,736	9,217,037
Federal sources	1,406,468	11,127,216	125,452	12,659,136
Intermediate sources	8,199	-	-	8,199
Interdistrict sources	1,302,911	-	-	1,302,911
Total revenue	<u>7,067,951</u>	<u>36,728,980</u>	<u>382,541</u>	<u>44,179,472</u>
Expenditures				
Administration Center	7,394,865	19,575,247	176,357	27,146,469
Blossomland Learning Center	-	6,846,244	234,271	7,080,515
Lighthouse Education Center	-	4,183,188	-	4,183,188
Juvenile Center	-	377,453	-	377,453
Transportation Center	-	2,994,500	-	2,994,500
Total expenditures	<u>7,394,865</u>	<u>33,976,632</u>	<u>410,628</u>	<u>41,782,125</u>
Excess of Revenue (Under) Over Expenditures	(326,914)	2,752,348	(28,087)	2,397,347
Other Financing Sources (Uses)				
Transfers in (Note 6)	326,000	-	38,000	364,000
Transfers out (Note 6)	-	(364,000)	-	(364,000)
Total other financing sources (uses)	<u>326,000</u>	<u>(364,000)</u>	<u>38,000</u>	<u>-</u>
Net Change in Fund Balances	(914)	2,388,348	9,913	2,397,347
Fund Balances - Beginning of year	<u>2,188,507</u>	<u>4,724,109</u>	<u>60,641</u>	<u>6,973,257</u>
Fund Balances - End of year	<u>\$ 2,187,593</u>	<u>\$ 7,112,457</u>	<u>\$ 70,554</u>	<u>\$ 9,370,604</u>

Berrien Regional Education Service Agency

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

Net Change in Fund Balances - Total Governmental Funds \$ 2,397,347

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (448,686)	
Capitalized capital outlay	<u>233,584</u>	(215,102)

Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end 140,411

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities 137,077

Compensated absences are recorded when earned in the statement of activities (30,492)

Insurance reserve expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (179,269)

Change in Net Assets of Governmental Activities \$ 2,249,972

Berrien Regional Education Service Agency

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2011

	Student Activities Agency Fund
Assets - Cash and investments (Note 3)	<u>\$ 53,546</u>
Liabilities - Due to student groups	<u>\$ 53,546</u>

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies

The accounting policies of Berrien Regional Education Service Agency (the "Agency") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Agency:

Reporting Entity

The Agency is governed by an elected five-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Agency's reporting entity, and which organizations are legally separate component units of the Agency. Based on the application of the criteria, the Agency does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Agency's district-wide activities are considered governmental activities.

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

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

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

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

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

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

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The Agency reports the following major governmental funds:

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

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Special Education Fund - The Special Education Fund, a Special Revenue Fund, is used to account for all financial resources relating to the operation of special education programs of the Agency.

Additionally, the Agency reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes.

- **School Service Fund** - The School Service Fund is used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Agency maintains full control of this fund. The School Service Fund maintained by the Agency is for food services. Food services are provided to the special education programs. Any operating deficit generated by this activity is the responsibility of the General Fund.
- **Ombudsman Fund** - The Ombudsman Fund is a federal court-ordered program. The fund is used to facilitate resolution of complaints brought by interdistrict transfer students or their parents.

Debt Retirement Fund - The Debt Retirement Fund is used to record the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the Agency in a trustee capacity or as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Activities (Agency) Fund - The Agency presently maintains an Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and Special Education Fund is generally allocated to each fund using a weighted average of balance for the principal.

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The Agency considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. United States Department of Agriculture Commodities inventory received by the School Service Fund is recorded as inventory and deferred revenue until used.

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

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental column in the district-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Agency does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Buses and other vehicles	5 to 8 years
Furniture and other equipment	5 to 10 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consist of earned but unused accumulated vacation pay. A liability for this amount is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Balance - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The Agency implemented Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or superintendent, who is authorized by a policy, approved by the Board of Education, to make assignments.

The Board of Education has adopted a fund balance policy. The fund balance policy proscribes the minimum fund balance as 10 percent of expenditures in the General Fund. This is deemed to be the prudent amount to maintain the Agency's ability to meet obligations as they come due throughout the year.

Comparative Data - Comparative data is not included in the Agency's financial statements.

Accounting Change - Effective July 1, 2010, the Agency implemented the provisions of Governmental Accounting Standards Board Statement No. 54.

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by program. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the program level. State law requires the Agency to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Agency increased budgeted revenue in the Special Education Fund in response to receiving additional federal grants.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2011 is not known.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Agency did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

State statutes and the Agency's investment policy authorize the Agency to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Agency's deposits are in accordance with statutory authority.

The Agency has designated three financial institutions for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment as listed above.

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

The Agency's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Agency's deposits for custodial credit risk. At year end, the Agency's deposit balance of \$9,063,605 had \$8,563,605 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's policy for custodial credit risk states that risk will be minimized by diversifying the investment portfolio, so that the impact of potential losses from any one type of security or issuer will be minimized. The Agency does not have investments with custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Agency's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Agency's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Agency's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Agency's investment policy does not further limit its investment choices.

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 674,660	Various	AAAm	S&P

Concentration of Credit Risk - The Agency places no limit on the amount the Agency may invest in any one issuer. The Agency's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the Agency's investments are in the Michigan Liquid Asset Fund.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the Agency's policy prohibit investment in foreign currency.

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the Agency's individual major funds and the nonmajor funds are as follows:

	General Fund	Special Education Fund	Other Nonmajor Governmental Funds	Total
Receivables:				
Accounts	\$ 391,146	\$ 948,043	\$ 1,088	\$ 1,340,277
Intergovernmental	464,744	5,001,744	3,942	5,470,430
Net receivables	<u>\$ 855,890</u>	<u>\$ 5,949,787</u>	<u>\$ 5,030</u>	<u>\$ 6,810,707</u>

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds	
	Unavailable	Unearned
Transportation services provided to the local districts	\$ 823,567	\$ -
Grant and categorical aid payment	-	596,960
Total deferred revenue	<u>\$ 823,567</u>	<u>\$ 596,960</u>

Note 5 - Capital Assets

Capital asset activity of the Agency's governmental activities was as follows:

	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 237,753	\$ -	\$ -	\$ 237,753
Capital assets being depreciated:				
Facility - Administration Center	4,200,017	-	-	4,200,017
Facility - Blossomland Learning Center	4,312,231	170,675	-	4,482,906
Facility - Lighthouse Education Center	3,939,471	-	-	3,939,471
Facility - Building Trades Center	402,422	-	-	402,422
Facility - Transportation Center	1,446,301	-	-	1,446,301
Furniture and equipment	2,072,237	62,909	(23,145)	2,112,001
Subtotal	16,372,679	233,584	(23,145)	16,583,118
Accumulated depreciation:				
Facility - Administration Center	1,783,548	136,280	-	1,919,828
Facility - Blossomland Learning Center	2,612,387	111,617	-	2,724,004
Facility - Lighthouse Education Center	548,063	82,951	-	631,014
Facility - Building Trades Center	56,338	8,048	-	64,386
Facility - Transportation Center	286,658	29,338	-	315,996
Furniture and equipment	1,696,977	80,452	(23,145)	1,754,284
Subtotal	6,983,971	448,686	(23,145)	7,409,512
Net capital assets being depreciated	9,388,708	(215,102)	-	9,173,606
Net capital assets	<u>\$ 9,626,461</u>	<u>\$ (215,102)</u>	<u>\$ -</u>	<u>\$ 9,411,359</u>

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

Depreciation expense was not charged to activities as the Agency considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Transfers In</u>	<u>Transfers Out - Special Education Fund</u>
General Fund	\$ 326,000
School Service Fund	38,000
Total	<u>\$ 364,000</u>

The transfer to the General Fund was a payment for services provided. A transfer was also made to subsidize operations in the School Service Fund.

Note 7 - Long-term Debt

The Agency issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Agency. Other long-term obligations include compensated absences.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Durant Non-plaintiff Bond	\$ 664,109	\$ -	\$ 137,077	\$ 527,032	\$ 143,596
Compensated absences	92,551	30,492	-	123,043	-
Total governmental activities	<u>\$ 756,660</u>	<u>\$ 30,492</u>	<u>\$ 137,077</u>	<u>\$ 650,075</u>	<u>\$ 143,596</u>

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 143,596	\$ 14,000	\$ 157,596
2013	383,436	89,341	472,777
Total	<u>\$ 527,032</u>	<u>\$ 103,341</u>	<u>\$ 630,373</u>

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 7 - Long-term Debt (Continued)

Governmental Activities

Durant Non-plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-plaintiff Bond. Annual total payments (principal and interest) of \$157,596 to \$472,777 associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any Agency debt levy or utilization of any other Agency financial resources. During the year ended June 30, 2007, the State of Michigan revised the payment schedule of the obligation. The total obligation was not changed and the revised payment schedule is reflected above. The Durant Non-plaintiff Bond is comprised of the following issue:

\$2,244,324 School Improvement Bond, Series 1998, due in annual installments of \$143,596 to \$383,436 through May 15, 2013; interest at 4.76 percent \$ 527,032

Note 8 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits, dental, and optical provided to employees. The Agency has purchased commercial insurance for general liability, property/casualty, and error and omissions claims and participates in the SET-SEG (risk pool) for claims relating to workers' compensation. The Agency is uninsured for medical claims up to \$100,000 individually and \$6,231,551 aggregately.

The Agency estimates the liability for claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2011</u>	<u>2010</u>
Estimated liability - Beginning of year	\$ 251,426	\$ 345,932
Estimated claims incurred - Including changes in estimates	4,302,344	4,713,287
Claim payments	<u>(4,273,025)</u>	<u>(4,807,793)</u>
Estimated liability - End of year	<u>\$ 280,745</u>	<u>\$ 251,426</u>

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 9 - Defined Benefit Pension Plan

Plan Description - The Agency participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Agency. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

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

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 to 4.3 percent of gross wages. The Agency's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$1,455,510, \$1,330,517, and \$1,344,935, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 31, 2010, and 8.5 percent for the period from November 1, 2010 through June 30, 2011. The Agency's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 were \$936,899, \$903,534, and \$922,065, respectively.

Berrien Regional Education Service Agency

Notes to Financial Statements June 30, 2011

Note 10 - Restrictd Fund Balance

The Special Education Fund balance is restricted for the following expenditures at June 30, 2011:

Administration Center improvements	\$ 105,000
Blossomland improvements	458,000
Lighthouse improvements	69,000
Transportation Center	125,000
Health and medical	750,000
Special education - General	5,128,695
2011-2012 budgeted operating deficit	<u>470,663</u>
Total	<u>\$ 7,106,358</u>

Note 11 - Upcoming Accounting Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Agency is currently evaluating the impact this standard will have on the financial statements when adopted, during the Agency's 2012-2013 fiscal year.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the Agency's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Required Supplemental Information

Berrien Regional Education Service Agency

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 2,251,382	\$ 2,192,973	\$ 2,384,312	\$ 191,339
State sources	2,085,999	2,091,314	1,966,061	(125,253)
Federal sources	1,380,358	1,536,611	1,406,468	(130,143)
Intermediate sources	64,062	4,838	8,199	3,361
Interdistrict sources	1,301,056	1,313,083	1,302,911	(10,172)
Total revenue	7,082,857	7,138,819	7,067,951	(70,868)
Expenditures - Administration Center	7,851,580	8,042,563	7,394,865	(647,698)
Excess of Expenditures Over Revenue	(768,723)	(903,744)	(326,914)	576,830
Other Financing Sources - Transfers in	326,000	326,000	326,000	-
Net Change in Fund Balance	(442,723)	(577,744)	(914)	576,830
Fund Balance - Beginning of year	2,188,507	2,188,507	2,188,507	-
Fund Balance - End of year	<u>\$ 1,745,784</u>	<u>\$ 1,610,763</u>	<u>\$ 2,187,593</u>	<u>\$ 576,830</u>

Berrien Regional Education Service Agency

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 17,632,178	\$ 17,434,650	\$ 18,533,524	\$ 1,098,874
State sources	7,143,456	7,076,891	7,068,240	(8,651)
Federal sources	7,961,562	11,405,213	11,127,216	(277,997)
Total revenue	32,737,196	35,916,754	36,728,980	812,226
Expenditures				
Administration Center	17,964,547	21,168,975	19,575,247	(1,593,728)
Blossomland Learning Center	6,844,843	6,876,859	6,846,244	(30,615)
Lighthouse Education Center	4,411,973	4,260,817	4,183,188	(77,629)
Juvenile Center	449,127	400,510	377,453	(23,057)
Transportation Center	3,075,550	3,035,035	2,994,500	(40,535)
Total expenditures	32,746,040	35,742,196	33,976,632	(1,765,564)
Excess of Revenue (Under) Over Expenditures	(8,844)	174,558	2,752,348	2,577,790
Other Financing Uses - Transfers out	(326,000)	(364,000)	(364,000)	-
Net Change in Fund Balance	(334,844)	(189,442)	2,388,348	2,577,790
Fund Balance - Beginning of year	4,724,109	4,724,109	4,724,109	-
Fund Balance - End of year	\$ 4,389,265	\$ 4,534,667	\$ 7,112,457	\$ 2,577,790

Other Supplemental Information

Berrien Regional Education Service Agency

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Special Revenue Funds			Total
	School	Ombudsman	Debt Retirement Fund	Nonmajor Governmental Funds
	Service			
Assets				
Cash and investments	\$ 80,526	\$ 239,687	\$ -	\$ 320,213
Accounts receivable	5,030	-	-	5,030
Inventories	4,281	-	-	4,281
Prepaid costs	4,022	-	-	4,022
	\$ 93,859	\$ 239,687	\$ -	\$ 333,546
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 23,305	\$ 145	\$ -	\$ 23,450
Deferred revenue	-	239,542	-	239,542
	23,305	239,687	-	262,992
Fund Balances				
Nonspendable:				
Inventories	4,281	-	-	4,281
Prepaid costs	4,022	-	-	4,022
Restricted	62,251	-	-	62,251
	70,554	-	-	70,554
Total fund balances	\$ 93,859	\$ 239,687	\$ -	\$ 333,546
Total liabilities and fund balances	\$ 93,859	\$ 239,687	\$ -	\$ 333,546

Berrien Regional Education Service Agency

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2011

	Special Revenue Funds			Total Nonmajor Governmental Funds
	School Service	Ombudsman	Debt Retirement Fund	
Revenue				
Local	\$ 74,353	\$ -	\$ -	\$ 74,353
State	6,379	18,754	157,603	182,736
Federal	125,452	-	-	125,452
Total revenue	206,184	18,754	157,603	382,541
Expenditures				
Administration Center	-	18,754	157,603	176,357
Blossomland Learning Center	234,271	-	-	234,271
Total expenditures	234,271	18,754	157,603	410,628
Excess of Expenditures Over Revenue	(28,087)	-	-	(28,087)
Other Financing Sources -				
Transfers in	38,000	-	-	38,000
Net Change in Fund Balances	9,913	-	-	9,913
Fund Balances - Beginning of year	60,641	-	-	60,641
Fund Balances - End of year	\$ 70,554	\$ -	\$ -	\$ 70,554

Berrien Regional Education Service Agency

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2011

<u>June 30</u>	<u>Durant Principal</u>
2012	\$ 143,596
2013	<u>383,436</u>
Total	<u>\$ 527,032</u>
Principal payments due	May 15
Interest payments due	May 15
Interest rate	4.76%
Original issue	<u>\$ 2,244,324</u>

Berrien Regional Education Service Agency

**Federal Awards
Supplemental Information
June 30, 2011**

Berrien Regional Education Service Agency

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Independent Auditor's Report

To the Board of Education
Berrien Regional Education Service Agency

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Regional Education Service Agency (the "Agency") as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 27, 2011. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic 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 basic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berrien Regional Education Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards, schedule of expenditures of federal awards provided to subrecipients, and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules 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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

September 27, 2011

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
Berrien Regional Education Service Agency

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Regional Education Service Agency as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 27, 2011. We have 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 Berrien Regional Education Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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.

To the Board of Education
Berrien Regional Education Service Agency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berrien Regional Education Service Agency'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*.

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

Plante & Morse, PLLC

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

To the Board of Education
Berrien Regional Education Service Agency

Compliance

We have audited the compliance of Berrien Regional Education Service Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The major federal programs of Berrien Regional Education Service Agency are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Berrien Regional Education Service Agency's management. Our responsibility is to express an opinion on Berrien Regional Education Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Berrien Regional Education Service Agency'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 on Berrien Regional Education Service Agency's compliance with those requirements.

In our opinion, Berrien Regional Education Service Agency 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.

To the Board of Education
Berrien Regional Education Service Agency

Internal Control Over Compliance

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

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

Plante & Morse, PLLC

September 27, 2011

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Clusters:								
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:								
Non-Cash Assistance (Commodities) -								
National School Lunch Program - Entitlement - 2010 - 2011	10.555	\$ 7,922	\$ -	\$ -	\$ -	\$ 7,922	\$ 7,922	\$ -
Cash Assistance:								
National School Breakfast Program:								
2010-11	10.553	43,083	-	-	-	41,588	43,083	1,495
2009-10		41,530	41,530	1,653	-	1,653	-	-
Total National School Breakfast Program		84,613	41,530	1,653	-	43,241	43,083	1,495
National School Lunch Program:								
2010-11	10.555	74,447	-	-	-	72,000	74,447	2,447
2009-10		77,685	77,685	2,648	-	2,648	-	-
Total National School Lunch Program		152,132	77,685	2,648	-	74,648	74,447	2,447
Cash Assistance Subtotal		236,745	119,215	4,301	-	117,889	117,530	3,942
Total Child Nutrition Cluster		244,667	119,215	4,301	-	125,811	125,452	3,942
Special Education Cluster - U.S. Department of Education - Passed through the Michigan Department of Education - Special Education Flowthrough:								
ARRA - Project number 100455 0910	84.391	6,849,410	2,259,308	1,021,838	-	3,667,204	4,116,754	1,471,388
Project number 110450 1011	84.027	6,107,118	-	-	-	4,669,438	5,861,622	1,192,184
Project number 100450 0910	84.027	6,137,371	6,137,371	922,884	-	922,884	-	-
Project number 110480 EOSD	84.027	50,000	-	-	-	50,000	50,000	-
Project number 110490 TS	84.027	45,000	-	-	-	45,000	45,000	-
Project number 100490 TS	84.027	59,500	59,500	8,232	-	8,232	-	-
Total passed through Michigan Department of Education		19,248,399	8,456,179	1,952,954	-	9,362,758	10,073,376	2,663,572
Passed through Macomb I.S.D. - MIBLSI Grant 1011	84.027	16,000	-	-	-	16,000	530	(15,470)
Passed through Macomb I.S.D. - MIBLSI Grant 0910	84.027	21,000	8,345	(12,655)	-	-	12,655	-
Total Special Education Flowthrough		19,285,399	8,464,524	1,940,299	-	9,378,758	10,086,561	2,648,102

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Clusters (Continued):								
Special Education Cluster - U.S. Department of Education (Continued):								
Preschool Incentive:								
ARRA - Project number 100465 0910	84.392	\$ 229,275	\$ 39,825	\$ 34,006	\$ -	\$ 188,832	\$ 188,269	\$ 33,443
Project number 110460 1011	84.173	202,063	-	-	-	-	107,342	107,342
Project number 100460 0910	84.173	201,957	182,461	81,482	-	100,978	19,496	-
Total Preschool Incentive		633,295	222,286	115,488	-	289,810	315,107	140,785
Total Special Education Cluster		19,918,694	8,686,810	2,055,787	-	9,668,568	10,401,668	2,788,887
Title I, Part A Cluster - U.S. Department of Education - Passed through the Michigan Department of Education:								
Title I Regional Assistance Grant:								
Project number 101570 0910	84.010	140,000	54,713	5,808	-	71,868	68,238	2,178
Title I, Part D - The Prevention & Intervention Programs for Children & Youth:								
ARRA - Project number 101705 0910	84.013	53,949	37,265	6,342	-	10,360	4,018	-
ARRA - Project number 111705 1011	84.013	49,925	-	-	-	-	35,819	35,819
Project number 111700 1011	84.013	99,586	-	-	-	71,019	76,638	5,619
Project number 101700 0910	84.013	157,958	116,369	43,733	-	53,948	10,215	-
Total Title I, Part D Cluster passed through Michigan Department of Education		361,418	153,634	50,075	-	135,327	126,690	41,438
Early Intervention Services (IDEA) Cluster - U.S. Department of Education - Passed through the Michigan Department of Education - Early on Michigan								
ARRA - Project number 101345 190	84.393	301,979	36,773	8,648	-	161,791	165,361	12,218
Project number 111340 190	84.181	214,749	-	-	-	205,615	207,116	1,501
Project number 101340 190	84.181	215,240	201,022	9,336	-	23,554	14,218	-
Project number 091340 190	84.181	209,788	209,788	20,784	-	20,784	-	-
Total Early Intervention Services (IDEA) Cluster		941,756	447,583	38,768	-	411,744	386,695	13,719
Head Start Cluster - U.S. Department of Health and Human Services - Passed through Tri-County Council for Child Development Early Head Start:								
ARRA - PAT Early Head Start	93.709	143,639	100,909	34,844	-	77,574	42,730	-
ARRA - EvenStart Early Head Start		475,276	155,276	49,808	-	350,940	318,642	17,510
Total Head Start Cluster		618,915	256,185	84,652	-	428,514	361,372	17,510

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Clusters (Continued):								
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Michigan Department of Community Health - Medicaid Outreach - 2010-2011	93.778	\$ 97,950	\$ -	\$ -	\$ -	\$ 97,950	\$ 97,950	\$ -
Education of Homeless Children and Youth Cluster - U.S. Department of Education - Passed through the Michigan Department of Education - Homeless Students Assistance Grants:								
ARRA - Project number 102325 0910	84.387	89,793	68,345	-	-	21,448	21,448	-
Project number 112320 1011	84.196	95,778	-	-	-	40,612	48,064	7,452
Project number 102320 1011-C	84.196	18,099	-	-	-	18,099	18,099	-
Project number 102320 0910	84.196	64,399	51,391	8,519	-	21,527	13,008	-
Total Education of Homeless Children and Youth Cluster		268,069	119,736	8,519	-	101,686	100,619	7,452
Educational Technology State Grants Cluster - U.S. Department of Education - Passed through Calhoun I.S.D. - Title II Part D; Enhancing Education Through Technology Act of 2001 - ARRA - Project number 104245 0910		188,765	4,496	4,496	-	77,888	77,431	4,039
Total Clusters		22,780,234	9,842,372	2,252,406	-	11,119,356	11,746,115	2,879,165
Other federal awards:								
U.S. Department of Education:								
Passed through the Michigan Department of Education:								
Vocational Education - Tech Prep:	84.243							
Project number 113540 1114-19		124,455	-	-	-	103,782	124,455	20,673
Project number 103540 1014-19		125,644	125,644	13,699	-	13,699	-	-
Project number 093540 9014-19		124,908	124,908	-	(916)	-	(916)	-
Total Tech Prep		375,007	250,552	13,699	(916)	117,481	123,539	20,673
Title II Part A - Teacher/Principal Training & Recruiting:	84.367A							
Project number 110520 1011		1,145	-	-	-	-	1,145	1,145
Project number 100520 0910		1,145	1,145	1,145	-	1,145	-	-
Total Title II, Part A		2,290	1,145	1,145	-	1,145	1,145	1,145
Title III - Limited English Proficient Students:	84.365A							
Project number 110580 1011		37,894	-	-	-	27,927	28,295	368
Project number 100580 0910		33,221	32,164	32,164	-	33,221	1,057	-
Total Title II - Limited English Proficient Students		71,115	32,164	32,164	-	61,148	29,352	368

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2010	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Other federal awards (Continued):								
U.S. Department of Education (Continued):								
Passed through the Michigan Department of Education (Continued):								
Safe and Drug-free Schools and Communities:								
Project number 112860 1011	84.186	\$ 126,545	\$ -	\$ -	\$ -	\$ 49,501	\$ 126,545	\$ 77,044
Project number 102860 0910		126,520	123,971	13,075	-	15,624	2,549	-
Total Safe and Drug-free Schools and Communities		253,065	123,971	13,075	-	65,125	129,094	77,044
Total noncluster programs passed through the Michigan Department of Education		701,477	407,832	60,083	(916)	244,899	283,130	99,230
Passed through Lewis Cass I.S.D. Vocational and Technical Education (Perkins III) - Project number 113520/111219	84.048	406,014	-	-	-	367,890	406,014	38,124
U.S. Department of Agriculture - Passed through Michigan Fitness Foundation - Shaping Positive Lifestyles & Attitudes through School Health:								
2010-2011	10.561	80,000	-	-	-	31,030	59,774	28,744
2009-2010		89,746	53,041	19,386	-	56,091	36,705	-
Total Shaping Positive Lifestyles & Attitudes through School Health		169,746	53,041	19,386	-	87,121	96,479	28,744
Total nonclusters		1,277,237	460,873	79,469	(916)	699,910	785,623	166,098
Total federal financial awards		\$ 24,057,471	\$ 10,303,245	\$ 2,331,875	\$ (916)	\$ 11,819,266	\$ 12,531,738	\$ 3,045,263

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards Provided to Subrecipients Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Vocational Education - Tech Prep - Project number 113540 1114-19 - Passed through to:	84.243	
Lake Michigan College		\$ 30,000
Lewis Cass ISD		22,402
Van Buren County ISD		32,358
Total Vocational Education - Tech Prep		84,760
Safe and Drug-free Schools and Communities - Project numbers 102860 0910 and 112860 1011 - Passed through to:	84.186	
Benton Harbor		2,200
Brandywine		2,200
Bridgman		2,200
Buchanan		2,200
Eau Claire		2,200
New Buffalo		2,200
River Valley		2,200
Dream Academy		898
M.C. Wells		1,417
Van Buren ISD		2,200
Cassopolis		2,200
Bloomingdale		2,200
South Haven		2,200
Total Safe and Drug-free Schools and Communities		26,515
Special Education Cluster:		
Special Education Flowthrough - ARRA - Project number 100455 0910 - Passed through to:	84.391	
Benton Harbor		416,010
Berrien Springs		322,801
Brandywine		122,369
Bridgman		20,702
Buchanan		293,750
Coloma		216,291
Eau Claire		66,000
Galien		25,330
Lakeshore		406,493
New Buffalo		138,977
Niles		405,914
River		4,588
River Valley		34,637
Riverside		4,000
St. Joseph		315,955
Watervliet		19,108
Dream Academy		2,000
M.C. Wells		1,631
Total Special Education Flowthrough - ARRA		2,816,556

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards Provided to Subrecipients (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Special Education Cluster (Continued):		
Special Education Flowthrough - (P.L. 94-142 and Preschool Incentive) -	84.027 and	
Project numbers 100460 0910, 110460 1011, 110450 1011 - Passed through to:	84.173	
Berrien Springs		\$ 431,937
Lakeshore		279,245
Niles		<u>1,415,946</u>
Total Special Education Flowthrough (P.L. 94-142 and Preschool Incentive)		2,127,128
Title I Part D The Prevention & Intervention Program for Children & Youth who are Neglected, Delinquent, or At Risk - Project numbers 111700 1011 and 101700 0910 -	84.013	
Passed through to - Berrien County Education/Berrien County Jail		37,547
Title I Part D The Prevention & Intervention Program for Children & Youth who are Neglected, Delinquent, or At Risk - ARRA - Project numbers 111705 1011 and 101705 0910 -	84.013	
Passed through to - Berrien County Education/Berrien County Jail		26,325
Medicaid Cluster - Passed through to:	93.778	
Benton Harbor		21,284
Benton Harbor Charter		2,579
Berrien Springs		14,227
Brandywine		8,824
Bridgman		6,161
Buchanan		10,101
Coloma		11,499
Countryside Charter		2,861
Eau Claire		5,175
Galien		1,049
Lakeshore		18,308
New Buffalo		4,043
Niles		24,064
River		442
River Valley		4,329
Riverside		423
St. Joseph		17,749
Watervliet		8,236
Dream Academy		1,441
M.C. Wells		<u>1,140</u>
Total Medicaid Cluster		163,935

Berrien Regional Education Service Agency

Schedule of Expenditures of Federal Awards Provided to Subrecipients (Continued) Year Ended June 30, 2011

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Vocational and Technical Education (Perkins III) - Project number 113520/111219 -	84.048	
Passed through to:		
Benton Harbor		\$ 149,603
Berrien Springs		27,370
Brandywine		11,731
Bridgman		9,824
Buchanan		19,550
Coloma		41,220
Lakeshore		15,640
New Buffalo		11,731
Niles		54,741
River Valley		11,731
St. Joseph		<u>11,731</u>
Total Vocational and Technical Education (Perkins III)		364,872
Shaping Positive Lifestyles & Attitudes through School Health - Passed through to:	10.561	
Eau Claire		187
River Valley		3,752
Cassopolis		1,598
South Haven		<u>6,152</u>
Total Shaping Positive Lifestyles & Attitudes through School Health		<u>11,689</u>
Total federal funds passed through to subrecipients		<u>\$ 5,659,327</u>

Berrien Regional Education Service Agency

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 12,659,136
Less grant expenditures incurred in the year ended June 30, 2010 but deferred on the basic financial statements in accordance with GASB 33, and recognized as revenue in the year ended June 30, 2011	<u>(127,398)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 12,531,738</u>

Berrien Regional Education Service Agency

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Berrien RESA under programs of the federal government for the year ended June 30, 2011. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the schedule presents only a selected portion of the operations of Berrien Regional Education Service Agency (BRESA), it is not intended to and does not present the financial position, changes in net assets, or cash flows of BRESA. Pass-through entity identifying numbers are presented where available.

Note 2 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Note 4 - Medicaid Outreach

For several years, the Agency has received Medicaid Outreach (CFDA #93.778) funds on behalf of the Local Education Agencies (LEAs). These funds have been held by the Agency, as agreed, due to the possible repayment of the funds. Each year the Agency has accounted for the receipt of the Medicaid funds on its records.

For reporting purposes, the Agency has shown the amount of Medicaid Outreach funds received on its schedule of expenditures of federal awards each year as both payments received and expenditures. However, no amount has been included on the schedule of expenditures of federal awards provided to subrecipients as payments were not made to the LEAs. During the current year, it was determined that the Medicaid funds should be paid out to the LEAs. As a result, the payments shown on the schedule of expenditures of federal awards provided to subrecipients in the current year will exceed the expenditures shown for the program on the schedule of expenditures of federal awards.

Berrien Regional Education Service Agency

Schedule of Findings and Questioned Costs Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.391	Special Education Cluster - Special Education Flowthrough - ARRA
84.027	Special Education Cluster - Special Education Flowthrough
84.392	Special Education Cluster - Preschool Incentive - ARRA
84.173	Special Education Cluster - Preschool Incentive
84.393	Early Intervention Services Cluster - Early On Michigan - ARRA
84.181	Early Intervention Services Cluster - Early On Michigan
84.013	Title I, Part D - The Prevention & Intervention Programs for Children & Youth who are Neglected, Delinquent, or At-Risk - ARRA
84.013	Title I, Part D - The Prevention & Intervention Programs for Children & Youth who are Neglected, Delinquent, or At-Risk

Dollar threshold used to distinguish between type A and type B programs: \$375,952

Auditee qualified as low-risk auditee? Yes No

Berrien Regional Education Service Agency

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None