

**Eastern Upper Peninsula
Intermediate School District**

**Financial Report
with Supplemental Information**

June 30, 2009

Eastern Upper Peninsula Intermediate School District

Contents

Independent Auditor’s Report	1 – 2
Administration’s Discussion and Analysis	3 – 10
Basic Financial Statements	
District –wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets – Proprietary Funds	16
Statement of Revenues, Expenses, and changes in Net Assets – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds	18
Fiduciary Fund	
Statement of Fiduciary Net Assets	19
Notes to Financial Statements	20 – 33
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	34
Budgetary Comparison Schedule – Special Education Fund	35
Budgetary Comparison Schedule – Co-op Fund	36

Eastern Upper Peninsula Intermediate School District

Contents (Continued)

Other Supplementary Information

Combining Balance Sheet – Nonmajor Governmental Funds	37
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – -Nonmajor Governmental Funds	38
Agency Funds: Statement of Changes in Assets and Liabilities – Detail	39

Reports on Compliance

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	40-41
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	42-43
Schedule of Expenditures of Federal Awards	44-46
Notes to Schedule of Expenditures of Federal Awards	47
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditor’s Results	48
Section II – Financial Statement Findings	49
Section III – Federal Award Findings	49
Schedule of Expenditures of Federal Awards Provided to Subrecipients	50-52



HARRIS GROUP

Certified Public Accountants

Independent Auditor's Report

To the Members of the
Board of Education
Eastern Upper Peninsula Intermediate School District

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Eastern Upper Peninsula Intermediate School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Eastern Upper Peninsula Intermediate School District'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 and the Michigan School Auditing Manual. 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 basic 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 aggregate remaining fund information of the Eastern Upper Peninsula Intermediate School District as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2009 on our consideration of Eastern Upper Peninsula Intermediate School District' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Eastern Upper Peninsula Intermediate School District

The Administration's Discussion and Analysis and the required supplementary information 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Eastern Upper Peninsula Intermediate School District basic financial statements. The accompanying information identified in the Table of Contents, and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "HARRIS GROUP".

Certified Public Accountants

August 26, 2009

Administration's Discussion and Analysis

The Eastern Upper Peninsula Intermediate School District (EUPISD) services all local school districts located in Chippewa, Luce and Mackinac Counties. The EUPISD is geographically the largest of the fifty-seven ISDs in the state of Michigan, covering 4,000 square miles and servicing approximately 8,200 students. The fifteen LEAs include Sault Ste. Marie Area Schools, DeTour Area Schools, Pickford Public Schools, Rudyard Area Schools, Brimley Area Schools, Whitefish Township School District, Tahquamenon Area Schools, St. Ignace City School District, Bois Blanc Pines School District, Les Cheneaux Community School District, Engadine Consolidated Schools, Moran Township School District, Mackinac Island Public Schools, Joseph K. Lumsden Bahweting Public School Academy, and Bay Mills Ojibwe Charter School.

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the EUPISD's report of the financial results for the fiscal year ended June 30, 2009. U.S. Generally Accepted Accounting Principals (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Financial Highlights

- The District's financial status remained relatively unchanged this year. Total net assets decreased by 1.84% to \$3.03 million, compared to \$3.09 million last year.
- During the year, the District's expenses were \$56,699 more than the \$11.4 million in revenues.
- At the end of the current fiscal year, the fund balance in the General Fund was \$948,426 or 23.24% of the total expenditures. The total amount of expenditures is dependent on the grants awarded in a particular year causing the percentage of total expenditures to vary from year to year.
- The District began Special Education Transportation, a business-type activity, for several of the local school districts during 2008-09.

Fund Financial Statements:

Governmental Funds. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Special Education, Co-op, and other non-major governmental funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Proprietary Funds. The District operates an internal service fund and enterprise fund. Proprietary funds use the accrual basis of accounting, the same as the government-wide financial statements, which makes the enterprise fund essentially the same as the business-type activities portion of the government-wide statements. The internal service activity is reported in the governmental-type activities portion of the government-wide statements.

Eastern Upper Peninsula Intermediate School District

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2009

District-Wide Financial Statements:

The District-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-Wide Financial Statements.

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2009.

	Governmental Activities		Business-Type Activities		Totals	
	2008	2009	2008	2009	2008	2009
Assets						
Current	\$ 3,679,650	\$ 3,852,055	\$ -	\$ 103,989	\$ 3,679,650	\$ 3,956,044
Non-current	1,011,690	1,008,722	-	72,620	1,011,690	1,081,342
Total assets	<u>\$ 4,691,340</u>	<u>\$ 4,860,777</u>	<u>\$ -</u>	<u>\$ 176,609</u>	<u>\$ 4,691,340</u>	<u>\$ 5,037,386</u>
Liabilities						
Current	\$ 1,373,621	\$ 1,677,146	\$ -	\$ 108,527	\$ 1,373,621	\$ 1,785,673
Non-Current	226,564	217,257	-	-	226,564	217,257
Total liabilities	<u>1,600,185</u>	<u>1,894,403</u>	<u>-</u>	<u>108,527</u>	<u>1,600,185</u>	<u>2,002,930</u>
Net Assets						
Invested in capital assets, net of related debt	808,958	825,098	-	68,082	808,958	893,180
Restricted	206,526	241,554	-	-	206,526	241,554
Unrestricted	<u>2,078,671</u>	<u>1,899,722</u>	<u>-</u>	<u>-</u>	<u>2,078,671</u>	<u>1,899,722</u>
Total net assets	<u>3,091,155</u>	<u>2,966,374</u>	<u>-</u>	<u>68,082</u>	<u>3,091,155</u>	<u>3,034,456</u>
Total liabilities and net assets	<u>\$ 4,691,340</u>	<u>\$ 4,860,777</u>	<u>\$ -</u>	<u>\$ 176,609</u>	<u>\$ 4,691,340</u>	<u>\$ 5,037,386</u>

Analysis of Financial Position

During fiscal year ended June 30, 2009, the District's net assets decreased by \$56,699. A few of the significant factors affecting the net assets during the year are discussed below:

A. Net Change in Net Assets

The district's investment in capital assets increased by \$84,222, which is related to purchase of vehicles, technology equipment, and school busses transferred from local districts and depreciation expense. The net restricted and unrestricted net assets decreased by \$143,921, which can be attributed to the increased services to the local districts.

B. Net Investment in Capital Assets

The district's net investment in capital assets increased by \$69,652 during the fiscal year. This can be summarized as follows:

Beginning, net at July 1, 2008	\$ 1,011,690
Acquisition of Capital Assets at cost, fiscal year ended June 30, 2009	525,452
Basis of assets sold/disposed	(5,165)
Net Depreciation Expense for fiscal year ended June 30, 2009	<u>(450,635)</u>
Ending Investment in Capital Assets, net at June 30, 2009	<u>\$ 1,081,342</u>

Capital assets acquired during the fiscal year include \$18,665 in vehicles, \$95,107 of technology and office equipment, and \$411,680 of school busses transferred from local districts for special education transportation.

C. Debt Activities

The State School Aid Act provided appropriations as part of a settlement to school districts involved in the Durant litigation. The Act provided for the districts to receive half of their settlement in ten annual installments paid November 15, 1998 through November 15, 2008 and the other half in fifteen annual installments. The Michigan Municipal Bond Authority issued bonds for the districts that elected to receive a lump sum rather than the fifteen payments. As part of the Executive Budget Recommendations for FY 2003, the bonds were "refunded". There was no debt service payment for May 2003, 2004 and 2005, the debt service payment resumed in 2006. During the year the District reduced its debt by \$19,108 in principal payments.

Results of Operations:

As the District completed the year, its governmental activities reported combined net asset balance of \$2.96 million, a decrease of \$124,781 and business-type activities reported net asset balance of \$68,082, an increase of \$68,082. Revenues and expenses increased by similar amounts due to new grants/revenue sources in 2008-2009 fiscal year. The overall decrease in net assets can be contributed to new staff added to better serve the local districts in the areas of curriculum support and early childhood services.

For the fiscal year ended June 30, 2009, the DISTRICT-WIDE results of operations were:

Eastern Upper Peninsula Intermediate School District

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2009

Results of Operations (continued):

	Governmental Activities		Business-Type Activities		Totals	
	2008	2009	2008	2009	2008	2009
Revenues:						
Property taxes	\$1,961,429	\$2,023,814	\$ -	\$ -	\$1,961,429	\$ 2,023,814
Unrestricted state aid	486,016	456,198	-	-	486,016	456,198
Other general revenues	98,176	82,428	-	-	98,176	82,428
Charges for services	1,574,739	1,835,577	-	670,981	1,574,739	2,506,558
Operating grants and contributions	5,421,383	6,220,575	-	109,808	5,421,383	6,330,383
Total revenues	9,541,743	10,618,592	-	780,789	9,541,743	11,399,381
Expenses:						
Instruction	1,312,054	1,330,482	-	-	1,312,054	1,330,482
Support Services	8,489,922	9,352,032	-	-	8,489,922	9,352,032
Community Services	48,779	55,856	-	-	48,779	55,856
Interest Expense – Unallocated	-	5,003	-	-	-	5,003
Special Education Transportation	-	-	-	712,707	-	712,707
Total expense	9,850,755	10,743,373	-	712,707	9,850,755	11,456,080
CHANGE IN NET ASSETS	\$ (309,012)	\$ (124,781)	\$ -	\$ 68,082	\$ (309,012)	\$ (56,699)

STATE OF MICHIGAN AID GENERATED BY SPECIAL ED. PUPIL MEMBERSHIP

To meet the needs of the severely impaired and other students with special needs within the Eastern Upper Peninsula, the EUPISD operates the Rudyard Service Center. The EUPISD is better able to operate such a center covering the entire intermediate district as it is often cost prohibited for the local districts to provide specialized staff and services for a small number of special needs pupils within their own districts. In addition, the EUPISD provides other professional staff to the locals such as psychologists, social workers, hearing and vision impaired consultants, speech therapists, occupational therapists, physical therapists and other specialized staff the districts may have a need for. The intermediate school district supports the service center and other direct services to the district through State Aid generated by pupil membership, millage, federal awards and charge-back fees to the local districts.

Based on annually submitted Special Education Annual Cost Report, Form 4096, the EUPISD generates State Aid under Section 51a.2 (Special Education Foundation, Sec 52) and Section 51a. The following notes the pupil membership, special education costs and state funding for the past five years. State funds received in 2008/2009 for payments toward reimbursing local school districts and intermediate school districts were at 28.6138% of the total approved costs of special education. This percentage may vary slightly from year to year.

**STATE OF MICHIGAN AID GENERATED BY SPECIAL ED. PUPIL MEMBERSHIP
(continued)**

Year	ISD Membership	Special Ed. Costs	Section 51a.2	Section 51a
2008-2009	52.07	\$3,414,433	\$383,444	\$593,555
2007-2008	48.80	\$3,065,269	\$360,299	\$516,791
2006-2007	47.57	\$2,812,224	\$339,682	\$465,002
2005-2006	44.19	\$2,661,353	\$306,014	\$455,500
2004-2005	47.34	\$2,543,582	\$319,874	\$407,941

MILLAGE LEVIED FOR GENERAL OPERATIONS AND SPECIAL EDUCATION

In August, 2006 the District received approval from the voters to levy 0.2 mills through 2010, inclusive, for general operations and in 1966 local voters approved a charter millage for special education services and programs in the amount of 1.0 mill. However, the district's 2006 Millage Rate Permanently Reduced by MCL 211.34d ("Headlee") for the special education charter millage limited the district's maximum allowable millage levy to 0.7727. Under Michigan law, the taxable level is based on taxable valuation of properties. Annually, the taxable valuation increase in property value is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

MILLAGE LEVIED FOR GENERAL OPERATIONS AND SPECIAL EDUCATION - continued

The District's 2008 Tax Rate Request (Form L-4029) indicates that the District requested 0.1990 mills be levied with the December 2008 tax collection period for allocated operational millage and 0.7727 mills for special education charter millage.

During fiscal year 2008-2009, the District's 2008 Taxable Value of All Properties was \$2,077,708,395 as reported on July 20, 2009 State Aid Status Report. Given this, revenue generated by the 0.1990 mills would calculate to \$413,464 and revenue generated by the .7727 mills would calculate to \$1,605,445. A small variance to the actual amount collected and the calculated amount could be due to delinquent taxes, board of review changes and/or subtractions or additions to the tax rolls.

Fiscal Year	Mills Levied General Fund	Mills Levied Special Ed.	Properties Taxable Value	% Increase from P.Y.
2008/2009	.1990	.7727	\$2,077,708,395	5.55%
2007/2008	.1990	.7727	\$1,968,556,831	5.56%
2006/2007	.1936	.7766	\$1,864,935,618	5.90%
2005/2006	.1953	.7833	\$1,760,633,408	5.99%
2004/2005	.1976	.7922	\$1,661,156,601	5.81%

Eastern Upper Peninsula Intermediate School District

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2009**

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES / FUND BALANCES

General Fund Expenditures Budget Vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual & Original Budget</u>	<u>Expenditures Variance Actual & Final Budget</u>
2004 – 2005	\$2,733,497	\$5,783,746	\$5,452,767	\$2,719,270	(\$330,979)
2005 – 2006	\$2,566,152	\$2,802,595	\$2,737,872	\$171,720	(\$64,723)
2006 – 2007	\$2,592,211	\$3,261,710	\$2,880,469	\$288,258	(\$381,241)
2007 – 2008	\$2,892,400	\$4,255,114	\$3,453,960	\$561,560	(\$801,154)
2008 – 2009	\$3,316,587	\$5,821,870	\$4,081,353	\$764,766	(\$1,740,517)

General Fund Revenue Budget Vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual & Original Budget</u>	<u>Revenues Variance Actual & Final Budget</u>
2004 – 2005	\$2,488,049	\$5,551,470	\$5,334,532	\$2,846,483	(\$216,938)
2005 – 2006	\$2,469,067	\$2,578,701	\$2,551,253	\$82,186	(\$27,448)
2006 – 2007	\$2,419,914	\$3,120,479	\$2,788,911	\$368,997	(\$331,568)
2007 – 2008	\$2,694,077	\$4,158,705	\$3,449,889	\$755,812	(\$708,816)
2008 – 2009	\$3,199,699	\$5,570,779	\$3,888,434	\$688,735	(\$1,682,345)

General Fund FUND BALANCE, 5-Year History

<u>Fiscal Year</u>	<u>Designated</u>	<u>Unrestricted/ Undesignated</u>	<u>Total</u>
2004 – 2005	\$ -	\$1,262,162	\$1,262,162
2005 – 2006	\$ -	\$1,236,974	\$1,236,974
2006 – 2007	\$ -	\$1,145,416	\$1,145,416
2007 – 2008	\$ -	\$1,141,345	\$1,141,345
2008 – 2009	\$ -	\$ 948,426	\$ 948,426

Eastern Upper Peninsula Intermediate School District

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2009

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that Boards of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the Eastern Upper Peninsula Intermediate School District periodically amends its budget throughout the fiscal year. The majority of budget amendments occurring throughout the year represent changes to and/or additions to Federal and State grants, both awarded and competitive. Due to the fluctuation in grant funds throughout any given fiscal year, the percentage variance between the Intermediate School District's original and final budget may be at a considerably higher rate than a local school district.

Change from Original to Final Budget, 2008/2009:

General Fund Revenues:

Total Revenues Original Budget	\$3,199,699	
Total Revenues Final Budget	<u>\$5,507,779</u>	
Increase (Decrease) in Budgeted Revenues	<u>\$ 2,308,080</u>	<u>72.14%</u>

Change from Original to Final Budget, 2008/2009 (continued):

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$3,316,587	
Total Expenditures Final Budget	<u>\$5,821,870</u>	
Increase (Decrease) in Budgeted Expenditures	<u>\$ 2,502,283</u>	<u>75.54%</u>

The majority of changes/increases in the Intermediate School District's General Fund revenue and expenditure budget were due to the awarding of grants and other funding sources after the original budget was prepared. Some of the additional grants and other funding sources were as follows: Health Center Planning Grant (\$46,729), Enhancing Education Through Technology (\$1,491,754), Title I – High Priority Schools (\$76,521), Great Start Readiness (\$357,439), Children's Trust Fund 0 to 3 (\$152,227), SPLASH Grant (\$124,493), Math Science Partnership (\$70,905) and ECIC Great Start Collaborative (\$50,121).

Factors Affecting Future Periods

The budget for the 2009-2010 fiscal year will reflect the following facts/trends: Tax revenues are estimated to remain the same as 2008-2009. State Aid Section 81 (Discretionary) funding revenue is not expected to increase. The MPSERS retirement rate will increase from 16.54% to 16.94% paid on all wages due to changes in the 09-10 fiscal year State funding. Health insurance costs have been contained by changing coverage plans. In a continued emphasis toward curricular activities, and with a goal of regional increased student achievement, programs that continue to be the focus of the General Fund budget includes Curriculum Consulting/ Direction and Assessment.

The EUPISD is aggressively pursuing grants that will enable us to continue to provide assistance to the local districts with a common goal of improving student achievement. It is also a budgetary commitment of the EUPISD to assist our geographically isolated local districts.

Contacting the District's Management:

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Eastern Upper Peninsula Intermediate School District by visiting or writing at P.O. Box 883, 315 Armory Place, Sault Ste. Marie, MI 49783 or by calling 906-632-3373.

Basic Financial Statements

Eastern Upper Peninsula Intermediate School District

Statement of Net Assets June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and equivalents	\$ 1,955,631	\$ -	\$ 1,955,631
Due from other governmental units	1,850,217	94,864	1,945,081
Accounts receivable	16,531	-	16,531
Prepaid expenses	29,676	9,125	38,801
Total current assets	<u>3,852,055</u>	<u>103,989</u>	<u>3,956,044</u>
Capital Assets:			
Capital Assets Not Depreciated	22,000	-	22,000
Capital Assets Depreciated	986,722	72,620	1,059,342
Total noncurrent assets	<u>1,008,722</u>	<u>72,620</u>	<u>1,081,342</u>
Total assets	<u>\$ 4,860,777</u>	<u>\$ 176,609</u>	<u>\$ 5,037,386</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Due to other funds	\$ (102,032)	\$ 102,032	\$ -
Accounts payable	274,051	1,446	275,497
Accrued salaries and withholding	298,246	5,049	303,295
Deferred revenue	708,185	-	708,185
Due to other governmental units	478,679	-	478,679
Bonds payable - due within one year	20,017	-	20,017
Total current liabilities	<u>1,677,146</u>	<u>108,527</u>	<u>1,785,673</u>
Noncurrent Liabilities:			
Bonds payable	163,607	-	163,607
Compensated absences payable	53,650	-	53,650
Total noncurrent liabilities	<u>217,257</u>	<u>-</u>	<u>217,257</u>
Total liabilities	<u>1,894,403</u>	<u>108,527</u>	<u>2,002,930</u>
Net Assets:			
Invested in capital assets, net of related debt	825,098	68,082	893,180
Restricted for capital projects	241,554	-	241,554
Unrestricted	1,899,722	-	1,899,722
Total net assets	<u>\$ 2,966,374</u>	<u>\$ 68,082</u>	<u>\$ 3,034,456</u>

Eastern Upper Peninsula Intermediate School District

Statement of Activities Year Ended June 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants/ Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs:						
Governmental Activities:						
Instruction	\$ 1,330,482	\$ 74,734	\$ 1,260,128	\$ 4,380	\$ -	\$ 4,380
Support services	9,352,032	1,760,843	4,910,528	(2,680,661)	-	(2,680,661)
Community services	55,856	-	49,919	(5,937)	-	(5,937)
Interest Expense - Unallocated	5,003	-	-	(5,003)	-	(5,003)
Total Governmental Activities	<u>10,743,373</u>	<u>1,835,577</u>	<u>6,220,575</u>	<u>(2,687,221)</u>	<u>-</u>	<u>(2,687,221)</u>
Business-Type Activities:						
Special Education Transportation	<u>712,707</u>	<u>670,981</u>	<u>109,808</u>	<u>-</u>	<u>68,082</u>	<u>68,082</u>
TOTALS	<u>\$ 11,456,080</u>	<u>\$ 2,506,558</u>	<u>\$ 6,330,383</u>	<u>(2,687,221)</u>	<u>68,082</u>	<u>(2,619,139)</u>
General Revenues:						
Taxes						
Property taxes, levied for general operations				2,023,814	-	2,023,814
State of Michigan aid, unrestricted				456,198	-	456,198
Gain on sale of capital assets				2,700	-	2,700
Interest and investment earnings				30,528	-	30,528
Miscellaneous				49,200	-	49,200
Total general revenues				<u>2,562,440</u>	<u>-</u>	<u>2,562,440</u>
Changes in Net Assets				<u>(124,781)</u>	<u>68,082</u>	<u>(56,699)</u>
Net assets:						
Beginning of year				<u>3,091,155</u>	<u>-</u>	<u>3,091,155</u>
End of year				<u>\$ 2,966,374</u>	<u>\$ 68,082</u>	<u>\$ 3,034,456</u>

Eastern Upper Peninsula Intermediate School District

Balance Sheet Governmental Funds June 30, 2009

	General	Special Education Fund	Co-op Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and equivalents	\$ 1,059,756	\$ 55,668	\$ 512,226	\$ 241,554	\$ 1,869,204
Due from other governmental units	527,876	1,322,341	-	-	1,850,217
Due from other funds	102,032	-	-	-	102,032
Accounts receivable	9,039	318	7,174	-	16,531
Prepaid expenditures	18,073	6,757	4,846	-	29,676
Total Assets	\$ 1,716,776	\$ 1,385,084	\$ 524,246	\$ 241,554	\$ 3,867,660
LIABILITIES:					
Accounts payable	\$ 92,229	\$ 123,846	\$ 57,638	\$ -	\$ 273,713
Accrued salaries and withholdings	-	298,246	-	-	298,246
Deferred revenue	595,332	112,853	-	-	708,185
Due to other governmental units	80,789	397,890	-	-	478,679
Total liabilities	768,350	932,835	57,638	-	1,758,823
FUND BALANCES:					
Reserved for capital projects	-	-	-	241,554	241,554
Unreserved and undesignated	948,426	452,249	-	-	1,400,675
Designated, subsequent years expenditures	-	-	466,608	-	466,608
Total fund balances	948,426	452,249	466,608	241,554	2,108,837
Total liabilities and fund balances	\$ 1,716,776	\$ 1,385,084	\$ 524,246	\$ 241,554	

Amounts reported for governmental activities in the statement of net assets are different because:
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	\$ 1,890,557	
Accumulated depreciation is	(940,511)	950,046

Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

144,765

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consists of:

Bonds Payable	(183,624)
Termination benefits	(53,650)
Net assets of governmental activities	\$ 2,966,374

Eastern Upper Peninsula Intermediate School District

Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2009

	General	Special Education Fund	Co-op Fund	Other Nonmajor Governmental Funds	Totals
REVENUES:					
Local sources	\$ 465,490	\$ 1,863,817	\$ 396,813	\$ 3,347	\$ 2,729,467
State sources	1,324,600	1,263,420	-	24,111	2,612,131
Federal sources	1,556,265	1,874,717	-	-	3,430,982
Incoming transfers and other	330,939	1,239,545	271,976	-	1,842,460
Total Revenues	3,677,294	6,241,499	668,789	27,458	10,615,040
EXPENDITURES:					
Current:					
Instruction	190,462	1,143,565	-	-	1,334,027
Supporting services	3,769,831	4,838,261	730,674	15,319	9,354,085
Community services	49,918	5,938	-	-	55,856
Capital Outlay	-	-	-	-	-
Debt Service	-	-	-	24,111	24,111
Total expenditures	4,010,211	5,987,764	730,674	39,430	10,768,079
Excess of Revenues (Expenditures)	(332,917)	253,735	(61,885)	(11,972)	(153,039)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	211,140	-	59,439	50,000	320,579
Operating transfers out	(71,142)	(221,343)	(28,094)	-	(320,579)
Total other financing sources (uses)	139,998	(221,343)	31,345	50,000	-
Net Changes in Fund Balances	(192,919)	32,392	(30,540)	38,028	(153,039)
Fund Balances - Beginning of year	1,141,345	419,857	497,148	203,526	2,261,876
Fund Balances - End of year	\$ 948,426	\$ 452,249	\$ 466,608	\$ 241,554	\$ 2,108,837

Eastern Upper Peninsula Intermediate School District

**Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended June 30, 2009**

Net Changes in fund balances - total governmental funds \$ (153,039)

The change in net assets reported for governmental activities in the statement of activities is different because:

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

Capital Outlays	95,107	
Current Depreciation Expense	(76,486)	
Loss on disposal	(5,165)	13,456

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Bonds Payable	19,108	
Compensated absences	<u>(10,710)</u>	8,398

Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities

6,404

Changes in net assets of governmental activities \$ (124,781)

Eastern Upper Peninsula Intermediate School District

Statement of Net Assets Proprietary Funds June 30, 2009

	Business-Type Activities	Governmental Activities
	Special Education Transportation Fund	Travel Fund
ASSETS:		
Current Assets:		
Cash and equivalents	\$ -	\$ 86,427
Due from other governmental units	94,864	-
Prepaid expenses	9,125	-
	<u>103,989</u>	<u>86,427</u>
Total Current Assets		
Noncurrent Assets:		
Capital Assets:		
Busses	411,680	-
Vehicles	-	149,074
Less accumulated depreciation	(339,060)	(90,398)
	<u>72,620</u>	<u>58,676</u>
Total Noncurrent Assets		
	<u>\$ 176,609</u>	<u>\$ 145,103</u>
LIABILITIES:		
Current Liabilities:		
Due to other funds	\$ 102,032	\$ -
Accounts payable	1,446	338
Accrued salaries and withholdings	5,049	-
	<u>108,527</u>	<u>338</u>
Total Liabilities		
	<u>\$ 68,082</u>	<u>\$ 86,089</u>
NET ASSETS:		
Invested in capital assets, net of related debt	68,082	58,676
Unrestricted	-	86,089
	<u>\$ 68,082</u>	<u>\$ 144,765</u>
Total Net Assets		

Eastern Upper Peninsula Intermediate School District

**Statement of Revenues, Expenses, and
Changes in Net Assets
Governmental Funds - Internal Service Fund
Year Ended June 30, 2009**

	Business-Type Activities	Governmental Activities
	Special Education Transportation Fund	Travel Fund
OPERATING REVENUES:		
Local Sources	\$ -	\$ 68,645
Incoming Transfers and Other	670,981	-
Total Operating Revenues	<u>670,981</u>	<u>68,645</u>
OPERATING EXPENSES:		
Salaries & wages	348,650	-
Employee benefits	235,746	-
Purchased services	1,561	5,717
Supplies and materials	77,148	19,495
Other Expenses	12,414	5,492
Depreciation Expense	37,188	35,089
Total Operating Expenses	<u>712,707</u>	<u>65,793</u>
OPERATING INCOME (LOSS)	<u>(41,726)</u>	<u>2,852</u>
NONOPERATING REVENUE:		
Investment Income	-	852
Gain on sale of fixed assets	-	2,700
Total Nonoperating revenue	<u>-</u>	<u>3,552</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(41,726)	6,404
CAPITAL CONTRIBUTIONS:		
Contributions from Local Districts	109,808	-
Net Changes in Net Assets	68,082	6,404
Net Assets - July 1	<u>-</u>	<u>138,361</u>
Net Assets - June 30	<u>\$ 68,082</u>	<u>\$ 144,765</u>

Eastern Upper Peninsula Intermediate School District

**Statement of Cash Flows
Governmental Funds - Internal Service Fund
Year Ended June 30, 2009**

	Business-Type Activities	Governmental Activities
	Special Education Transportation Fund	Travel Fund
Cash flows from operating activities:		
Receipts from local districts	\$ 576,117	\$ 68,645
Receipts from interfund services provided	102,032	-
Payments to suppliers	(98,802)	(30,366)
Payments to employees	(579,347)	-
	-	38,279
<i>Net cash provided (used) by operating activities</i>		
Cash flows from capital activities:		
Net acquisition of capital assets	-	(18,665)
Proceeds from sale of capital assets	-	2,700
	-	(15,965)
<i>Net cash provided (used) by capital activities</i>		
Cash flows from investing activities:		
Interest received	-	852
	-	852
<i>Net cash provided (used) by investing activities</i>		
NET INCREASE (DECREASE) IN CASH	-	23,166
CASH, beginning of year	-	63,261
CASH, end of year	\$ -	\$ 86,427
 Reconciliation of operating income to net cash Provided (used) by operating activities:		
Operating Income (Loss)	\$ (41,726)	\$ 2,852
Adjustments to reconcile operating income to Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	37,188	35,089
Change in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables	(94,864)	-
Prepaid expenses	(9,125)	-
Increase (Decrease) in Liabilities:		
Due to other funds	102,032	-
Accounts payable	1,446	338
Accrued salaries and withholdings	5,049	-
	-	38,279
<i>Net cash provided (used) by operating activities</i>	\$ -	\$ 38,279

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009**

	<u>Agency</u>
ASSETS:	
Cash and Equivalents	<u>\$ 84,527</u>
LIABILITIES:	
Due to Clubs and Organizations	<u>\$ 84,527</u>

Notes to Financial Statements

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Eastern Upper Peninsula Intermediate School District conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 in both its governmental and business-type activities provided they do not conflict with or contradict GASB pronouncements.

Basic Financial Statements – Government-wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The government-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.

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

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the 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 and other items not properly included among program revenues are reported instead as

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to local districts for operation of special education bussing in their respective district. Operating expenses for proprietary funds include the cost of operating special education bussing and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non operating revenues and expenses.

The District does not allocate indirect costs. In creating the government-wide financial statements, the District has eliminated interfund transactions.

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

Basic Financial Statements – Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

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

The District reports the following major governmental funds:

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

Special education fund - accounts for revenue sources that are legally restricted to expenditure for special education purposes.

Co-op fund - accounts for the Districts technology funding and expenditures.

The District reports the following major proprietary funds:

Special education transportation – accounts for the special education transportation of local districts special education students.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the District reports the following funds:

Internal service fund - accounts for the Districts fleet activities, which is funded by charging the other funds within the district.

Agency fund - custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental wide statement uses the economic resources measurement focus.

Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants, and charges for services. Other revenue is recorded when received.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Eastern Upper Peninsula Intermediate School District taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes. Interest accrues effective August 1st and becomes delinquent the following March 1st.

The tax rates for the year ended June 30, 2009, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	.1990 per \$1,000 taxable value
Special Education Fund	.7727 per \$1,000 taxable value

State Foundation Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2009 the foundation allowance was based on the pupil membership counts taken in February 2008 and September 2008.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2008 to August 2009. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 – Accounting for Property Taxes.

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

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

Receivable and Payables – Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets – Capital assets, which include land, buildings, furniture, and equipment are reported in the governmental activities column in the school-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of \$1,000 or more or defined as a computer and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Land Improvements	20-50 years
Buildings	30-50 years
Building Improvements	5-20 years
Equipment	3-20 years
Vehicles	5-10 years
Office Furniture and Fixtures	5-20 years
Busses	7 years

Other accounting policies are disclosed as appropriate in other notes to the financial statements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – The liability for compensated absences reported in the government-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The following summarizes the specific policy with regard to sick pay compensated absences:

Employees may accumulate up to 100 days of sick pay. Upon retirement professional staff are entitled to payment of \$35 per day and Support staff and Central office staff are entitled to a payment of \$40 per day, up to a maximum of 75 unused sick days, per union agreement.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

Fund Balance - The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

Note 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the Required Supplementary Information – Budgetary Comparison Statements.
2. Public hearings are conducted to obtain taxpayer comments.

Note 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Budgeting Act are disclosed as unfavorable variances on the Required Supplementary Information – Budgetary Comparison Statements.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

Note 3 - DEPOSITS, INVESTMENTS, AND CREDIT RISK

Deposits

At year end, the carrying amount of the District’s deposits were \$2,040,158 and the bank balance was \$2,406,802 of which \$753,509 was covered by federal depository insurance and \$1,653,293 was uninsured and uncollateralized.

At year end, the District’s deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government	Fiduciary Funds
Cash and Cash Equivalents	\$ 931,724	\$ -	\$ 931,724	\$ -
Cash on hand	440	-	440	-
Investments	1,023,467	-	1,023,467	84,527
Total	<u>\$ 1,955,631</u>	<u>\$ -</u>	<u>\$ 1,955,631</u>	<u>\$ 84,527</u>

Note 3 - DEPOSITS, INVESTMENTS, AND CREDIT RISK (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 932,164
Investments in Mutual Funds	<u>1,107,994</u>
	<u>\$ 2,040,158</u>

The bank balance of the primary government’s deposits is \$2,322,275, of which \$753,509, 32.45%, is covered by federal depository insurance.

Investments

	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>	<u>Standard & Poors Rating</u>	<u>%</u>
Investments:				
MILAF External Investment Pool – MIMAX	<u>\$1,107,994</u>	<u>0.0027</u>	<u>AAAm</u>	<u>100</u>

1 day maturity equals 0.0027. One year equals 1.0.

Investment and Deposit Risk

Interest Rate Risk – The district limits interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting average maturity in accordance with the District’s cash requirements.

Concentration of Credit Risk – The district places diversifies the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Credit Risk - State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers’ acceptances of U.S. banks, and mutual funds composed of investments as outlined above. As of June 30, 2009, the district’s investment in the MILAF pool was rated AAAM by Standard and Poor’s.

Note 3 - DEPOSITS, INVESTMENTS, AND CREDIT RISK (Continued)

Custodial investment credit risk. Investment custodial credit risk, is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the District's \$1,107,994 investments, \$1,107,994 are not in the name of the District, but in the name of the agent.

Note 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Adjustments/ Deductions</u>	<u>Balance June 30, 2009</u>
Governmental Activities:				
Capital Assets Not Depreciated:				
Land	\$ 22,000	\$ -	\$ -	\$ 22,000
Total Assets Not Depreciated	<u>22,000</u>	<u>-</u>	<u>-</u>	<u>22,000</u>
Capital Assets Depreciated:				
Buildings and improvements	1,226,392	-	-	1,226,392
Site improvements	115,450	-	-	115,450
Furniture and equipment	524,876	95,107	(93,270)	526,713
Vehicles	141,859	18,665	(11,450)	149,074
Total Assets Depreciated	<u>2,008,577</u>	<u>113,772</u>	<u>(104,720)</u>	<u>2,017,629</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(483,963)	(20,059)	-	(504,022)
Site improvements	(96,291)	(1,917)	-	(98,208)
Furniture and equipment	(371,874)	(54,510)	88,105	(338,279)
Vehicles	(66,759)	(35,089)	11,450	(90,398)
Subtotal	<u>(1,018,887)</u>	<u>(111,575)</u>	<u>99,555</u>	<u>(1,030,907)</u>
Net Capital Assets Depreciated	<u>989,690</u>	<u>2,197</u>	<u>(5,165)</u>	<u>986,722</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 1,011,690</u>	<u>\$ 2,197</u>	<u>(\$ 5,165)</u>	<u>\$ 1,008,722</u>
	<u>Balance July 1, 2008</u>	<u>Adjustments/ Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
Business-Type Activities:				
Capital Assets Depreciated:				
Busses	\$ -	\$ 411,680	\$ -	\$ 411,680
Total Assets Depreciated	<u>-</u>	<u>411,680</u>	<u>-</u>	<u>411,680</u>
Less Accumulated Depreciation for:				
Busses	(-)	(339,060)	-	(339,060)
Business-Type Activities Capital Assets, Net of Depreciation	<u>\$ -</u>	<u>\$ 72,620</u>	<u>(\$ -)</u>	<u>\$ 72,620</u>

Note 4 - CAPITAL ASSETS (continued)

Depreciation expense was charged to programs as follows:

Governmental Activities	
Support Services	<u>\$ 111,575</u>
Business-Type Activities	
Special Education Transportation	<u>\$ 37,188</u>

Note 5 - LONT-TERM DEBT

At June 30, 2009, limited obligation debts and other long-term obligations currently outstanding are as follows:

Limited obligation Durant bonds payable in annual installments of \$19,108 to \$118,626 from May 2009 through May 2013, interest at 4.76%	\$ 183,624
Termination benefits	<u>53,650</u>
	<u>\$ 237,274</u>

The annual requirements to amortize long-term obligations outstanding as of June 30, 2009 are as follows:

Year ending June 30,	Principal	Interest	Total
2010	\$ 20,017	\$ 4,093	\$ 24,110
2011	118,626	43,371	161,997
2012	21,968	2,142	24,110
2013	<u>23,013</u>	<u>1,096</u>	<u>24,109</u>
	183,624	50,702	234,326
Termination benefits	<u>53,650</u>	<u>-</u>	<u>53,650</u>
	<u>\$ 237,274</u>	<u>\$ 50,702</u>	<u>\$ 287,976</u>

Note 5 - LONT-TERM DEBT (continued)

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
Bonds payable:					
Limited obligation bonds	\$ 202,732	\$ -	\$ 19,108	\$ 183,624	20,017
Other liabilities:					
Termination benefits	42,940	10,710	-	53,650	-
Total long-term liabilities	<u>\$ 245,672</u>	<u>\$ 10,710</u>	<u>\$ 19,108</u>	<u>\$ 237,274</u>	<u>\$ 20,017</u>

Interest expense (all funds) for the year ended June 30, 2009 was \$5,003.

Note 6 - PENSION

Plan Description – The District contributes to the statewide Michigan Public School Employees’ Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

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

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

Note 6 - PENSION (continued)

The District is required to contribute the full actuarial funding contribution amount to the pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2009 were 14.87%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2009, 2008, and 2007 were, \$549,830, \$486,534, and \$466,184, respectively, equal to the required contribution for each year.

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

Other Postemployment Benefits – Under the MPSERS’ Act, all retirees have the option of continuing health, dental and vision coverage.

Note 7 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of \$1,945,081 in revenues due from federal, state, and local sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2009 state aid, which was not received until after year end due to a change in the state aid payment schedule. Because of the District’s favorable collection experience, no allowance for doubtful accounts has been recorded.

Note 8 - INTERFUND RECEIVABLE AND PAYABLES, AND TRANSFERS

The District reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
	General Fund
Special Education Transportation Fund	<u>\$ 102,032</u>

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

Note 8 - INTERFUND RECEIVABLE AND PAYABLES, AND TRANSFERS (continued)

Interfund Transfers:

		TRANSFERS OUT			
TRANSFERS IN		General Fund	Special Ed Fund	Co-op Fund	Totals
		_____	_____	_____	_____
	General Fund	\$ -	\$ 183,046	\$ 28,094	\$ 211,140
	Co-op Fund	21,142	38,297	-	59,439
	Nonmajor	50,000	-	-	50,000
	Total	<u>\$ 71,142</u>	<u>\$ 221,343</u>	<u>\$ 28,094</u>	<u>\$ 320,579</u>

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

Note 9 - RISK MANAGEMENT

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

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Note 10 - SUBSEQUENT EVENTS

In July 2009 the District purchased property and a structure across from the central office building for \$45,244. The structure will be demolished and this property will be used as a parking lot in the future.

Note 11 - COMMITMENTS AND CONTINGENCIES

Grants

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2009.

Required Supplementary Information

Eastern Upper Peninsula Intermediate School District

Required Supplementary Information Budgetary Comparison - General Fund Year Ended June 30, 2009

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Favorable (Unfavorable)
REVENUES:				
Local sources	\$ 524,442	\$ 476,150	\$ 465,490	\$ (10,660)
State sources	1,064,059	1,709,619	1,324,600	(385,019)
Federal sources	1,136,811	2,832,286	1,556,265	(1,276,021)
Incoming transfers and other	253,035	341,572	330,939	(10,633)
Total Revenues	2,978,347	5,359,627	3,677,294	(1,682,333)
EXPENDITURES:				
Instruction	91,047	300,800	190,462	110,338
Support Services:				
Instructional staff	1,185,619	2,862,607	1,482,436	1,380,171
General administration	300,595	300,330	296,969	3,361
Business	307,681	359,967	343,376	16,591
Operations and maintenance	131,098	94,361	92,344	2,017
Support Services - Technology	-	32,900	29,976	2,924
Central Support Services	175,920	245,378	179,951	65,427
Payments to other units	1,045,736	1,478,006	1,344,779	133,227
Total support services	3,146,649	5,373,549	3,769,831	1,603,718
Community Services	20,000	76,379	49,918	26,461
Total expenditures	3,257,696	5,750,728	4,010,211	1,740,517
Excess of Revenues (Expenditures)	(279,349)	(391,101)	(332,917)	58,184
OTHER FINANCING SOURCES (USES):				
Operating transfers in	221,352	211,152	211,140	(12)
Operating transfers out	(58,891)	(71,142)	(71,142)	-
Total other financing sources (uses)	162,461	140,010	139,998	(12)
Net Changes in Fund Balances	(116,888)	(251,091)	(192,919)	58,172
Fund Balances - Beginning of year	1,141,345	1,141,345	1,141,345	-
Fund Balances - End of year	\$ 1,024,457	\$ 890,254	\$ 948,426	\$ 58,172

Eastern Upper Peninsula Intermediate School District

Required Supplementary Information Budgetary Comparison - Special Education Fund Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
REVENUES:				
Local sources	\$ 1,894,361	\$ 1,860,551	\$ 1,863,817	\$ 3,266
State sources	943,463	1,263,420	1,263,420	-
Federal sources	1,684,839	1,809,088	1,874,717	65,629
Incoming transfers and other	1,032,000	1,307,759	1,239,545	(68,214)
Total Revenues	<u>5,554,663</u>	<u>6,240,818</u>	<u>6,241,499</u>	<u>681</u>
EXPENDITURES:				
Instruction	<u>1,250,691</u>	<u>1,174,626</u>	<u>1,143,565</u>	<u>31,061</u>
Support Services:				
Pupil services	1,877,664	2,615,004	2,550,559	64,445
Instructional staff	218,965	544,597	529,149	15,448
General administration	260,926	5,500	5,000	500
Business	12,500	15,000	9,500	5,500
Operations and maintenance	34,546	33,620	33,456	164
Transportation	2,266	2,000	416	1,584
Central Support Services	104,288	124,957	123,443	1,514
Payments to other governmental units	<u>1,784,642</u>	<u>1,519,164</u>	<u>1,586,738</u>	<u>(67,574)</u>
Total support services	<u>4,295,797</u>	<u>4,859,842</u>	<u>4,838,261</u>	<u>21,581</u>
Community Services	<u>5,000</u>	<u>5,936</u>	<u>5,938</u>	<u>(2)</u>
Total expenditures	<u>5,551,488</u>	<u>6,040,404</u>	<u>5,987,764</u>	<u>52,640</u>
Excess of Revenues (Expenditures)	<u>3,175</u>	<u>200,414</u>	<u>253,735</u>	<u>53,321</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out	<u>(179,000)</u>	<u>(221,343)</u>	<u>(221,343)</u>	<u>-</u>
Total other financing sources (uses)	<u>(179,000)</u>	<u>(221,343)</u>	<u>(221,343)</u>	<u>-</u>
Net Changes in Fund Balances	<u>(175,825)</u>	<u>(20,929)</u>	<u>32,392</u>	<u>53,321</u>
Fund Balances - Beginning of year	<u>419,857</u>	<u>419,857</u>	<u>419,857</u>	<u>-</u>
Fund Balances - End of year	<u>\$ 244,032</u>	<u>\$ 398,928</u>	<u>\$ 452,249</u>	<u>\$ 53,321</u>

Eastern Upper Peninsula Intermediate School District

Required Supplementary Information Budgetary Comparison - Co-op Fund Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
REVENUES:				
Local sources	\$ 355,131	\$ 397,975	\$ 396,813	\$ (1,162)
Incoming transfers and other	307,157	277,519	271,976	(5,543)
Total Revenues	<u>662,288</u>	<u>675,494</u>	<u>668,789</u>	<u>(6,705)</u>
EXPENDITURES:				
Support Services:				
Instructional Staff	9,921	-	-	-
Operations and maintenance	10,000	3,500	3,281	219
Other support services	674,435	734,035	727,393	6,642
Total expenditures	<u>694,356</u>	<u>737,535</u>	<u>730,674</u>	<u>6,861</u>
Excess of Revenues (Expenditures)	<u>(32,068)</u>	<u>(62,041)</u>	<u>(61,885)</u>	<u>156</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	57,594	59,439	59,439	-
Operating transfers out	(26,985)	(28,094)	(28,094)	-
Total other financing sources (uses)	<u>30,609</u>	<u>31,345</u>	<u>31,345</u>	<u>-</u>
Net Changes in Fund Balances	(1,459)	(30,696)	(30,540)	156
Fund Balances - Beginning of year	497,148	497,148	497,148	-
Fund Balances - End of year	<u>\$ 495,689</u>	<u>\$ 466,452</u>	<u>\$ 466,608</u>	<u>\$ 156</u>

Other Supplementary Information

Eastern Upper Peninsula Intermediate School District

Other Supplementary Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2009

	Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds
ASSETS:			
Cash and equivalents	\$ -	\$ 241,554	\$ 241,554
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 241,554</u>	<u>\$ 241,554</u>
FUND EQUITY:			
Fund Balance:			
Designated	\$ -	\$ 241,554	\$ 241,554
TOTAL FUND EQUITY	<u>\$ -</u>	<u>\$ 241,554</u>	<u>\$ 241,554</u>

Eastern Upper Peninsula Intermediate School District

Other Supplementary Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2009

	Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds
REVENUES:			
Local Sources	\$ -	\$ 3,347	\$ 3,347
State Sources	24,111	-	24,111
TOTAL REVENUES	<u>24,111</u>	<u>3,347</u>	<u>27,458</u>
EXPENDITURES:			
Support Services	-	15,319	15,319
Debt Service	24,111	-	24,111
TOTAL REVENUES	<u>24,111</u>	<u>15,319</u>	<u>39,430</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>-</u>	<u>(11,972)</u>	<u>(11,972)</u>
OTHER FINANCING SOURCES:			
Operating Transfers In	-	50,000	50,000
Net Change in Fund Balance	-	38,028	38,028
FUND BALANCES, JULY 1	<u>-</u>	<u>203,526</u>	<u>203,526</u>
FUND BALANCES, JUNE 30	<u>\$ -</u>	<u>\$ 241,554</u>	<u>\$ 241,554</u>

Eastern Upper Peninsula Intermediate School District

Agency Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2009

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Subtractions</u>	Balance <u>June 30, 2009</u>
ASSETS:				
Cash and Equivalents	\$ 87,948	\$ 14,757	\$ 18,178	\$ 84,527
LIABILITIES:				
Employee benevolent	1,301	1,431	1,389	1,343
Beginnings library	76,347	13,190	14,631	74,906
Due to UPSED	6,861	92	1,208	5,745
Due to EUPSBA	2,939	44	450	2,533
Scholarship and awards	500	-	500	-
TOTAL LIABILITIES	<u>\$ 87,948</u>	<u>\$ 14,757</u>	<u>\$ 18,178</u>	<u>\$ 84,527</u>

Reports on Compliance



HARRIS GROUP

Certified Public Accountants

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

To the Members of the
Board of Education
Eastern Upper Peninsula Intermediate School District
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Eastern Upper Peninsula Intermediate School District, as of and for the year ended June 30, 2009, which collectively comprise Eastern Upper Peninsula Intermediate School District' basic financial statements and have issued our report thereon, dated August 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Eastern Upper Peninsula Intermediate School District' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Eastern Upper Peninsula Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Eastern Upper Peninsula Intermediate School District's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Eastern Upper Peninsula Intermediate School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Eastern Upper Peninsula Intermediate School District's financial statements that is more than inconsequential will not be prevented or detected by the Eastern Upper Peninsula Intermediate School District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Eastern Upper Peninsula Intermediate School District's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Eastern Upper Peninsula Intermediate School District in a separate letter dated August 26, 2009.

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



Certified Public Accountants

August 26, 2009



HARRIS GROUP

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

To the Members of the
Board of Education
Eastern Upper Peninsula Intermediate School District
Sault Ste. Marie, MI 49783

Compliance

We have audited the compliance of Eastern Upper Peninsula Intermediate School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Eastern Upper Peninsula Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Eastern Upper Peninsula Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Eastern Upper Peninsula Intermediate School District'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's, internal control over compliance.

A control deficiency in a District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 of management, Board of Education, others within the entity, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

August 26, 2009

Eastern Upper Peninsula Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2008	6/30/08 Current Year Cash Receipts	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2009
U.S. DEPARTMENT OF EDUCATION								
<i>Direct Award:</i>								
Rural Education Achievement Program	84.358A	S358A064732	\$ 13,334	\$ 5,714	\$ 5,714	\$ 6,927	\$ 1,213	\$ -
Rural Education Achievement Program	84.358A	S358A074732	17,379	5,997	918	12,300	11,382	-
Rural Education Achievement Program	84.358A	S358A084732	17,550	-	-	3,378	3,378	-
Subtotal			48,263	11,711	6,632	22,605	15,973	-
<i>Passed Through State Department of Education:</i>								
Federal Assistance for the Education of Handicapped Persons title VI-B:								
Flowthrough	84.027A	080450/0708	1,518,204	1,479,429	985,531	1,024,307	38,776	-
Flowthrough	84.027A	090450/08/09	1,522,839	-	-	1,224,052	1,522,839	298,787
SIP-EOSD	84.027A	080480/EOSD	50,000	50,000	6,161	6,161	-	-
SIP-EOSD	84.027A	090480/EOSD	50,000	-	-	50,000	50,000	-
State Initiated Competitive-Transition Services	84.027A	080490/TS	50,000	50,000	3,101	3,101	-	-
State Initiated Competitive-Transition Services	84.027A	090490/TS	43,000	-	-	43,000	43,000	-
			3,234,043	1,579,429	994,793	2,350,621	1,654,615	298,787
Preschool Incentive	84.173A	080460/0708	57,975	57,975	45,315	45,315	-	-
Preschool Incentive	84.173A	090460/0809	56,885	-	-	28,442	56,885	28,443
			114,860	57,975	45,315	73,757	56,885	28,443
Total Special Education Cluster			3,348,903	1,637,404	1,040,108	2,424,378	1,711,500	327,230
Economic Recovery Act - IDEA	84.391A	100455-0910	131,285	-	-	-	131,285	131,285
Economic Recovery Act - Preschool	84.392A	100465-0910	20,485	-	-	-	20,485	20,485
Total ARRA - Special Education Cluster			151,770	-	-	-	151,770	151,770
Education for the Handicapped Act, Part H:								
Infant & Toddler	84.181	081340/190	83,066	80,034	13,255	16,287	3,032	-
Infant & Toddler	84.181	091340/190	87,906	-	-	80,508	80,872	364
			170,972	80,034	13,255	96,795	83,904	364
Drug-Free Formula	84.186	082860/0708	42,669	37,948	3,817	7,457	3,640	-
Drug-Free Formula	84.186	092860/0809	34,103	-	-	24,302	26,666	2,364
			76,772	37,948	3,817	31,759	30,306	2,364
Tech-Prep Education	84.243A	083540/8014-03	52,597	52,597	25,104	25,104	-	-
Tech-Prep Education	84.243A	093540/9014-03	50,954	-	-	36,106	50,954	14,848
			103,551	52,597	25,104	61,210	50,954	14,848

Eastern Upper Peninsula Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2008	6/30/08 Current Year Cash Receipts	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2009
U.S. DEPARTMENT OF EDUCATION (continued)								
<i>Passed Through State Department of Education:</i>								
Carl Perkins V.E.A.:								
Regional Allocation	84.048A	083520/8012-03	101,163	101,163	60,741	60,741	-	-
Regional Allocation	84.048A	093520/9012-03	67,199	-	-	47,703	67,199	19,496
Secondary Reserve	84.048A	093530/9011-03	725	-	-	725	725	-
			169,087	101,163	60,741	109,169	67,924	19,496
21st Century Kids Café	84.287	082110/04-028	173,988	162,068	80,250	92,168	11,918	-
21st Century Kids Café	84.287	092110/04-028	173,988	-	-	132,836	173,988	41,152
			347,976	162,068	80,250	225,004	185,906	41,152
Title V - Innovative Program	84.298	080250/0708	2,191	2,191	1,319	1,319	-	-
			2,191	2,191	1,319	1,319	-	-
Improving Teacher Quality	84.367	080520/0708	205	205	205	205	-	-
Improving Teacher Quality	84.367	090520/0809	170	-	-	-	170	170
			375	205	205	205	170	170
Title I - School Improvement Funds	84.010A	081570/0708	70,000	63,479	15,951	22,472	6,521	-
Title I - School Improvement Funds	84.010A	091570/08/09	70,000	-	-	65,851	65,851	-
			140,000	63,479	15,951	88,323	72,372	-
Title II Part D, Enhancing Education Through Technology:								
Freedom to Learn	84.318	074240/2-1	198,277	177,770	56,251	56,251	-	-
Freedom to Learn	84.318	084240-PRO 10	351,342	-	-	234,815	234,815	-
Freedom to Learn	84.318	074240-PRO 10	681,658	261,245	227,410	633,743	406,333	-
Education Technology	84.318	084240-PRO 10	500,000	-	-	42,000	42,000	-
			1,731,277	439,015	283,661	966,809	683,148	-
Subtotal - MDE			6,242,874	2,576,104	1,524,411	4,004,971	3,037,954	557,394
<i>Passed Through Dickinson-Iron ISD:</i>								
Math and Science Partnership	84.366B	MSPW2007	60,125	3,517	(1,244)	-	1,244	-
Math and Science Partnership	84.366B	MSPF2008	69,660	-	-	25,350	44,942	19,592
Teaching American History	84.215X	U215X040066	38,828	4,098	4,098	4,098	-	-
Subtotal			168,613	7,615	2,854	29,448	46,186	19,592

Eastern Upper Peninsula Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2008	6/30/08 Current Year Cash Receipts	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2009
U.S. DEPARTMENT OF EDUCATION (continued)								
<i>Passed Through UPCED/NMU:</i>								
Improving Teacher Quality	84.367	080290-489	2,000	2,000	2,000	2,000	-	-
<i>Passed Through Marquette-Alger RESA:</i>								
Michigan Mathematics Program Improvement	84.323A	070620/03001	6,200	6,200	6,200	6,200	-	-
Autism Grant	84.027A	040870-3D51	2,618	2,175	1,422	1,422	-	-
Autism Grant	84.027A	090470-3D51	1,000	-	-	1,000	1,000	-
Subtotal			9,818	8,375	7,622	8,622	1,000	-
<i>Passed Through Saginaw Valley University:</i>								
Math & Science Partnership	84.366B	08-0000-014	175,000	19,289	19,289	53,964	100,892	66,217
Data for Student Success	84.318	0809	13,917	-	-	-	13,917	13,917
			188,917	19,289	19,289	53,964	114,809	80,134
Total U.S. Department of Education			6,660,485	2,625,094	1,562,808	4,121,610	3,215,922	657,120
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:								
<i>Direct Award:</i>								
Rural Health Care Services Outreach Grant Program	93.912	D04RH07915	150,000	142,459	12,719	19,022	6,303	-
Rural Health Care Services Outreach Grant Program	93.912	D04RH07915	5,000	1,238	1,238	1,238	-	-
Rural Health Care Services Outreach Grant Program	93.912	D04RH07915	125,000	-	-	116,003	116,003	-
Rural Health Care Services Outreach Grant Program	93.912	D04RH07915	100,000	-	-	-	-	-
Subtotal			380,000	143,697	13,957	136,263	122,306	-
<i>Passed Through Michigan Early Childhood Investment Corporation:</i>								
Child Care Development Fund	93.575	-	30,677	-	-	26,933	26,933	-
Child Care Development Fund	93.575	-	12,770	-	-	-	12,770	12,770
Subtotal			43,447	-	-	26,933	39,703	12,770
<i>Passed Through Michigan Department of Community Health:</i>								
Medicaid Outreach	93.778	-	64,321	34,367	(317,888)	35,975	42,604	(311,259)
Transportation - 2007-08	93.778	-	10,447	-	-	10,447	10,447	-
Subtotal			74,768	34,367	(317,888)	46,422	53,051	(311,259)
Total U.S. Department of Health & Human Services			498,215	178,064	(303,931)	209,618	215,060	(298,489)
TOTAL FEDERAL AWARDS			\$ 7,158,700	\$ 2,803,158	\$ 1,258,877	\$ 4,331,228	\$ 3,430,982	\$ 358,631

Eastern Upper Peninsula Intermediate School District

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2009

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Eastern Upper Peninsula Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Oversight Agency

The U.S. Department of Education is the oversight agency of the School District, as this federal agency provided the largest amount of indirect and direct federal funding.

Note C - Subrecipients

Of the federal expenditures presented in the schedule, Eastern Upper Peninsula Intermediate School District provided federal awards to subrecipients as noted in the Schedule of Expenditures of Federal Awards Provided to Subrecipients.

Note D – Other Disclosures

Management has utilized the Grants Auditors Report in preparing the Schedule of Federal Awards.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
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?	No

Identification of Major Programs:

CFDA Numbers

84.027 and 84.173
84.391A and 84.392A

Name of Federal Program

Special Education Cluster
Economic Recovery Act – Special
Education Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Eastern Upper Peninsula Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS FOR THE YEAR ENDED JUNE 30, 2009

Program Title/Subrecipient	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Due to/(from) Subrecipients July 1, 2008	Current Year Cash Transferred to/ (from) Subrecipient	Current Year Expenditures Reported by Subrecipients	Due to/(from) Subrecipients June 30, 2009
<i>Flowthrough</i>	84.027	080450-0708						
St. Ignace Area Schools			76,932	76,932	-	-	-	-
Rudyard Area Schools			173,342	173,342	60,733	60,733	-	-
Engadine Consolidated Schools			29,215	29,215	3,955	3,955	-	-
Les Cheneaux Community Schools			42,848	42,848	-	-	-	-
Pickford Public Schools			25,320	25,320	-	-	-	-
DeTour Area Schools			26,293	26,293	-	-	-	-
Tahquamenon Area Schools			196,714	196,714	115,035	115,035	-	-
Mackinac Island Public Schools			6,816	6,816	6,816	6,816	-	-
Sault Ste. Marie Area Schools			370,057	370,057	-	-	-	-
Brimley Area Schools			77,906	77,906	20,659	20,659	-	-
Moran Township Schools			15,581	15,581	5,267	5,267	-	-
Bay Mills Ojibwe Charter School			18,502	18,502	-	-	-	-
Whitefish Township Schools			4,869	4,869	4,869	4,869	-	-
<i>Flowthrough</i>	84.027	090450-0809						
St. Ignace Area Schools			68,500	-	-	36,590	68,500	31,910
Rudyard Area Schools			134,904	-	-	103,539	134,904	31,365
Engadine Consolidated Schools			34,748	-	-	30,139	34,748	4,609
Les Cheneaux Community Schools			44,990	-	-	25,551	44,990	19,439
Pickford Public Schools			32,175	-	-	24,242	32,175	7,933
DeTour Area Schools			20,462	-	-	20,462	20,462	-
Tahquamenon Area Schools			178,850	-	-	109,942	178,850	68,908
Mackinac Island Public Schools			6,060	-	-	6,060	6,060	-
Sault Ste. Marie Area Schools			349,010	-	-	263,083	349,010	85,927
Brimley Area Schools			73,584	-	-	47,884	73,584	25,700
Moran Township Schools			10,220	-	-	670	10,220	9,550
Bay Mills Ojibwe Charter School			18,180	-	-	15,217	18,180	2,963
Whitefish Township Schools			4,040	-	-	4,040	4,040	-
			2,040,118	1,064,395	217,334	904,753	975,723	288,304
<i>ARRA Flowthrough</i>	84.391A	100455-0910						
Les Cheneaux Community Schools			24,748	-	-	-	24,748	24,748
Moran Township Schools			5,918	-	-	-	5,918	5,918
Bay Mills Ojibwe Charter School			12,374	-	-	-	12,374	12,374
Brimley Area Schools			4,050	-	-	-	4,050	4,050
			47,090	-	-	-	47,090	47,090

Eastern Upper Peninsula Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS FOR THE YEAR ENDED JUNE 30, 2009

Program Title/Subrecipient	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Due to/(from) Subrecipients July 1, 2008	Current Year Cash Transferred to/ (from) Subrecipient	Current Year Expenditures Reported by Subrecipients	Due to/(from) Subrecipients June 30, 2009
<i>IDEA Preschool Incentive</i>								
Sault Ste. Marie Area Schools	84.173A	090460-0809	41,010	-	-	29,401	41,010	11,609
			41,010	-	-	29,401	41,010	11,609
<i>ARRA IDEA Preschool Incentive</i>								
Sault Ste. Marie Area Schools	84.392A	100465-0910	20,485	-	-	-	20,485	20,485
			20,485	-	-	-	20,485	20,485
<i>21st Century Community Learning Center</i>								
DeTour Area Schools	84.287	082110/04-028	34,605	34,605	-	-	-	-
Rudyard Area Schools			46,005	46,005	-	-	-	-
Tahquamenon Area Schools			49,741	41,506	20,328	28,562	8,234	-
			130,351	122,116	20,328	28,562	8,234	-
<i>21st Century Community Learning Center</i>								
DeTour Area Schools	84.287	092110/04-028	34,884	-	-	34,876	34,876	-
Rudyard Area Schools			46,005	-	-	35,572	46,005	10,433
Tahquamenon Area Schools			49,741	-	-	18,573	49,301	30,728
			130,630	-	-	89,021	130,182	41,161
<i>Carl D. Perkins Local Administration-Secondary</i>								
Sault Ste. Marie Area Schools	84.048a	083520/8012-03	93,623	93,623	35,964	35,964	-	-
Sault Ste. Marie Area Schools	84.048a	093520/9012-03	63,840	-	-	43,571	63,840	20,269
			157,463	93,623	35,964	79,535	63,840	20,269
<i>Carl D. Perkins, Title II Tech Prep</i>								
LSSU	84.243A	083540/8014-03	12,033	12,033	8,382	8,382	-	-
Sault Ste. Marie Area Schools			28,265	28,265	15,294	15,294	-	-
			40,298	40,298	23,676	23,676	-	-
<i>Carl D. Perkins, Title II Tech Prep</i>								
LSSU	84.243A	093540/9014-03	10,840	-	-	3,854	10,840	6,986
Sault Ste. Marie Area Schools			28,756	-	-	20,090	28,756	8,666
			39,596	-	-	23,944	39,596	15,652

Eastern Upper Peninsula Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS FOR THE YEAR ENDED JUNE 30, 2009

Program Title/Subrecipient	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Due to/(from) Subrecipients July 1, 2008	Current Year Cash Transferred to/ (from) Subrecipient	Current Year Expenditures Reported by Subrecipients	Due to/(from) Subrecipients June 30, 2009
<i>Title II Part D, Enhancing Education Through Technology:</i>								
<i>Freedom to Learn</i>								
Wayne County RESA	84.318	074240-PRO 10	37,000	-	-	37,000	37,000	-
MACUL			615,466	234,668	-	366,718	366,718	-
			652,466	234,668	-	403,718	403,718	-
<i>Title II Part D, Enhancing Education Through Technology:</i>								
<i>Freedom to Learn</i>								
Wayne County RESA	84.318	084240-PRO 10	38,000	-	-	38,000	38,000	-
MACUL			304,541	-	-	188,014	188,014	-
			342,541	-	-	226,014	226,014	-
<i>Medical Assistance Program TIT:</i>								
<i>Transportation</i>								
Sault Ste. Marie Area Schools	93.778	-	9,332	-	-	9,332	9,332	-
Engadine Consolidated Schools			227	-	-	227	227	-
			9,559	-	-	9,559	9,559	-
TOTAL FEDERAL AWARDS PASSED THROUGH TO SUBRECIPIENTS			\$ 3,651,607	\$ 1,555,100	\$ 297,302	\$ 1,818,183	\$ 1,965,451	\$ 444,570



August 26, 2009

To the Board of Education
Eastern Upper Peninsula Intermediate School District
Sault Ste Marie, MI

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Eastern Upper Peninsula Intermediate School District for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 4, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Eastern Upper Peninsula Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the liability of the payout of employee compensated absences is based on expected payout. Depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the amount of depreciation charged in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statements disclosures may be particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 26, 2009.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

Certified Public Accountants



August 26, 2009

To the Board of Education
Eastern Upper Peninsula Intermediate School District
Sault Ste Marie, MI

In planning and performing our audit of the financial statements of Eastern Upper Peninsula Intermediate School District as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Eastern Upper Peninsula Intermediate School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 26, 2009 on the financial statements of Eastern Upper Peninsula Intermediate School District. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operator efficiencies. Our comments are summarized as follows:

Agency Funds Cash Account

It was noted during our audit that the cash for agency funds is held in the same account as district funds. Since the district holds the Agency Fund cash on a fiduciary basis, we recommend that the District open a bank account strictly for the Activity Fund.

Statement No. 54 of the Governmental Accounting Standards Board

The GASB recently released this statement. The objective of this statement is to clear up confusion regarding the relationship between reserved fund balance and restricted net assets. 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 upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

We would be happy to discuss these changes and the affect they have on your financial statements for future years.

Uninsured Bank Deposits

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding there are limits to FDIC insured balances on the interest bearing accounts and certain non interest bearing accounts may have no FDIC insurance limits. We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy your goals.

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

Certified Public Accountants

Michigan Department of Education
 Local District Indirect Cost Rates for School Year 2009-2010
 Based on 2007-2008 Costs
 R0418 Rate Summary Report

District Code	District Name	* Restricted Rate	* Unrestricted Rate	** Medicaid Rate
13110	Marshall Public Schools	4.42	18.07	18.07
13120	Pennfield School District	3.01	19.47	19.47
13130	Tekonsha Community Schools	2.99	13.53	13.67
13135	Union City Community Schools	4.45	19.10	20.61
13901	Arbor Academy	23.12	58.12	58.12
13902	Endeavor Charter Academy	7.71	35.13	35.13
13903	Marshall Academy	3.61	23.76	23.76
13904	Battle Creek Area Learning Center	7.68	49.91	49.91
14000	Lewis Cass ISD	8.58	19.59	19.59
14010	Cassopolis Public Schools	3.34	19.94	19.94
14020	Dowagiac Union School District	5.21	13.96	13.13
14030	Edwardsburg Public Schools	1.99	17.21	17.21
14050	Marcellus Community Schools	0.00	11.60	8.66
15000	Charlevoix-Emmet ISD	15.09	20.24	20.24
15010	Beaver Island Community School	8.20	21.35	21.35
15020	Boyne City Public Schools	1.90	14.16	12.93
15030	Boyne Falls Public School District	2.82	13.88	13.81
15050	Charlevoix Public Schools	2.43	15.85	15.72
15060	East Jordan Public Schools	1.22	9.26	9.26
15901	Concord Academy:Boyne	6.68	15.02	13.99
15902	Northwest Academy	6.86	11.50	11.50
16000	Cheb-Otsego-Presque Isle ESD	5.91	13.05	13.35
16015	Cheboygan Area Schools	0.61	10.84	10.84
16050	Inland Lakes Schools	6.14	16.29	16.21
16070	Mackinaw City Public Schools	4.79	14.79	14.79
16100	Wolverine Community Schools	3.56	15.49	13.80
17000	Eastern Upper Peninsula ISD	27.20	30.52	30.11
17010	Sault Ste. Marie Area Schools	5.27	18.19	20.65
17050	Detour Area Schools	5.31	17.94	20.31
17090	Pickford Public Schools	0.60	8.80	8.80
17110	Rudyard Area Schools	2.07	13.15	13.15
17140	Brimley Area Schools	5.54	17.49	18.11
17160	Whitefish Township Schools	0.88	18.39	22.20
17901	Joseph K. Lumsden Bahweting Anishnabe Ac	7.98	30.69	30.69
17902	Ojibwe Charter School	9.24	20.76	20.76
18000	Clare-Gladwin RESD	5.72	10.62	9.60
18010	Clare Public Schools	4.39	17.80	17.80
18020	Farwell Area Schools	4.71	15.38	17.88
18060	Harrison Community Schools	3.61	12.45	10.69
19000	Clinton County RESA	5.71	12.31	12.31

* If Rate Exceeds 15.00% Limit, Use 15%
 ** If Rate Exceeds 25.00% Limit, Use 25%