

**Gratiot-Isabella Regional
Education Service District**

***Financial Statements
With Supplemental Information
June 30, 2012***



RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Gratiot-Isabella Regional Education Service District
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June 30, 2012

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Independent Auditor's Report

Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella Regional Education Service District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
October 10, 2012

**Management's Discussion
and Analysis**



GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The management discussion and analysis section of Gratiot-Isabella Regional Education Service District's (GIRESD) annual financial report provides the district's evaluation of its own financial performance during the year ended June 30, 2012. Management discussion and analysis should be read in conjunction with the district's financial statements immediately following this section.

Using this Annual Report

Gratiot-Isabella Regional Education Service District's annual report consists of a series of financial statements and notes related to those statements. Financial statements are organized so the reader can understand GIRESD financial operations as a whole. *District-wide Financial Statements* provide information about the activities of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. Governmental activities statements explain how services were financed in the short-term, and explain how remaining funds can be used for future operations. *Fund Financial Statements* examine the District's operations in more detail than the district-wide financial statements.

The district's annual financial report includes the following financial statements and related information:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Basic Financial Statements
- Budgetary Information
 - General Fund
 - Major Special Revenue Funds
- Other Supplemental Information

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

The statement of net assets, and the statement of activities, which appear first in the financial statements, report information on the financial condition of the District as a result of this year's activities. These statements record all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are recognized regardless of when cash is received or paid.

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The statement of net assets and the statement of activities report the governmental activities for the District, which encompass all the District's services, including instruction, supporting services, and community services. Property taxes, State Aid, and state and federal grants finance most of these activities.

The statement of net assets and the statement of activities report the District's net assets as the difference between assets and liabilities. Net assets are a measurement of the District's financial health. Over time, increases or decreases in the District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The District's primary goal is to provide services to students, local districts and constituents. As a result, one must consider many non-financial factors, such as the quality of services provided and the safety of the schools, to assess the overall health of GIRESD.

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

The District's fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain taxes, grants and other money. The governmental funds of the District use the following accounting approach:

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

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
 MANAGEMENT DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2012

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

The District is the trustee, or fiduciary, for funds of various groups. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the District's other financial statements because these assets cannot be used to finance District operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of GIRESD. Table 1 provides a summary of the District's net assets as of June 30, 2012 and 2011:

Table 1

	2012	2011
Assets		
Current and other assets	\$11,625,735	\$11,021,367
Capital assets, net of depreciation	3,556,608	3,688,459
Total Assets	15,182,343	14,709,826
Liabilities		
Current liabilities	3,041,181	2,363,289
Non-current liabilities	820,573	942,733
Total liabilities	3,861,754	3,306,022
Net assets		
Invested in property and equipment, net of related debt	2,697,920	2,713,347
Restricted	94	94
Unrestricted	8,622,575	8,690,363
Total net assets	\$11,320,589	\$11,403,804

The net assets of the District on June 30, 2012 and 2011 were \$11,320,589 and \$11,403,804, respectively. A portion of the District's current year net assets (23.8%) reflects investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from money available from general operations.

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The results of this year's operations for GIRESD as a whole are reported in the statement of activities, which reflects the changes in net assets for fiscal years 2012 and 2011. Table 2 below summarizes the revenues and expenses for the governmental funds at the fund financial statement level:

Table 2	Governmental Funds - 2012	%	Governmental Funds - 2011	%
Revenue				
Local Sources	\$11,058,842	45	\$10,882,741	41
State Sources	6,944,107	28	5,058,410	19
Federal Sources	5,920,999	24	10,106,447	38
Other Financing Sources	764,062	3	415,625	2
Totals	\$24,688,010	100	\$26,463,223	100
Function/Program Expenses				
Instruction	\$6,166,879	25	\$6,248,699	21
Pupil Services	4,686,066	19	4,770,359	17
Instructional Staff	940,226	4	1,130,482	4
Educational Media Services	27,579	-	52,838	-
General Administration	694,482	3	686,370	2
School Administration	630,120	3	673,606	2
Business	731,808	3	711,150	3
Operation & Maintenance	628,095	2	935,335	4
Transportation	2,185,023	9	2,113,546	8
Central	692,410	3	642,849	2
Planning, research, & development	-	-	-	-
Community Services	2,001,827	8	4,113,710	15
Debt Service	101,201	0	101,202	0
Other	5,274,470	21	5,385,788	20
Total Expenses	\$24,760,186	100	\$27,565,934	100
Excess/(Deficiency) of Revenues Over Expenditures	(\$72,175)		(\$1,102,711)	
Total Other Financing Sources/(Uses)	-		-	
Change in Fund Balance	(\$72,175)		(\$1,102,711)	

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The School District's Funds

GIRESD funds are used to control and manage money for particular purposes. Reviewing funds maintained by GIRESD helps determine whether the District is being accountable for the resources it receives and can provide more insight into the District's overall financial health.

As the District completed the 2011-12 year, governmental funds reported a combined fund balance of \$8,702,327, which is a decrease of \$72,175 from the prior year. On a relative basis, the various district funds performed at a near break even level during 2011-12. Special Education (\$62,176) and Funded Projects Funds (\$55) experienced slight increases in their fund balance during 2011-12. Funds experiencing a slight decline in their fund balance reserves include: General Fund (\$27,430); Cooperative Education Fund (\$25,518; and Capital Projects Fund (\$81,458). Overall, actual revenues and expenses were within 98.5% and 96.1%, respectively, of budgeted amounts.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Uniform Budget Act of the State of Michigan requires that the GIRESD Board of Education adopt an original budget for the upcoming fiscal year by July 1st. As a matter of practice, the district amends its budget during the fiscal year. These revisions are made in order to deal with changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

The following changes occurred in the GIRESD financial operations when comparing actual financial performance to the final budget projections for 2011-12. Actual revenues were lower than final budget projections in the Special Education Fund (\$64,927 or .35%); Cooperative Education Fund (\$161,997, or 5.98%); and Funded Projects Fund (\$168,335, or 7.74%). Cooperative Education Fund budget variances resulted mainly from grant funds of over \$100,000 that were awarded but not expended during 2011-12. The district will not experience a loss of funding from these grants as unexpended grant funds will be carried over to the subsequent 2012-13 year. Actual revenues were higher than final budget projections in the General Fund (\$21,365, or 1.42%).

Actual expenditures were lower than final budget projections in all funds for the 2011-12 year: General Fund expenditures were lower by \$95,076 (4.6%); Special Education Fund by \$512,346 (2.8%); Cooperative Education Fund by \$202,245 (13.5%); and Funded Projects Fund by \$144,640 (7.0%).

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
 MANAGEMENT DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012 and 2011, GIRESD had \$3,556,608 and \$3,688,459, respectively, (net of depreciation), invested in a broad range of capital assets, including land, buildings and improvements, and equipment.

Debt

At June 30, 2012 and 2011, GIRESD had \$938,346 and \$1,059,157, respectively, in long-term debt. The debt consisted of the following:

Debt	2012	2011
Compensated absences	\$79,658	\$84,045
QSCB Bonds – 2009	825,610	\$910,305
MMNET installment notes	17,322	34,011
Bonds – Durant	15,756	30,796
Total	\$938,346	\$1,059,157

ECONOMIC FACTORS AND NEXT YEAR BUDGETS

GIRESD relies on three main sources of revenue: property taxes, state funding and federal grants. Federal and state sources of revenue continue to experience financial pressures that will likely continue to challenge GIRESD’s financial position during 2012-13 and beyond. These pressures are expected to be offset by continued increases in property taxes resulting from the construction of numerous wind turbines within the GIRESD taxable area. As a result, overall funds available to GIRESD during 2012-13 are expected to increase.

GIRESD property taxes have historically remained a relatively stable source of revenues, annually increasing near the rate of inflation. GIRESD has fortunately been able to avoid the large property tax valuation declines that many other areas of the state and nation have experienced. During the past 3 years (2009, 2010, and 2011), the district property tax valuations experienced an abnormally low growth rate (.7%). The low growth rate kept district revenues relatively flat and created ongoing budget challenges. Tax valuations in 2012 are expected to increase over 8% as 133 wind turbines values at approximately \$125 million have been constructed in Gratiot county. Property tax revenues from the turbines alone are expected to add over \$536,000 to the General and Special Education Funds during 2012-13.

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Construction of additional turbines planned in future years is expected to provide additional tax revenues. The additional revenue created by the turbines is not, however, expected to provide a long term solution to the district's budget challenges. Turbines are classified as depreciable property, and as such their taxable value will be reduced annually over a 7 year period, at which point their valuation will have declined to 30% of the initial taxable value. As a result, turbines should be considered as providing an intermediate term (3 – 5 year) substantial injection of additional revenues to the district. Unless turbine construction continues for several additional years, the district can expect revenues to remain relatively flat or even slightly decline in the 2014-15 year. Additionally, the district can expect property tax revenue from planned commercial development to be offset by reductions in categorical grant funds currently received from the State. The district will need to plan accordingly to be able to effectively operate in a this uncertain revenue environment

GIRESD, along with other Michigan school districts, will be faced with significant budget challenges in the next several years as the State of Michigan continues to struggle to determine an effective method to provide adequate funding to public education. Legislative changes that could significantly change the method public schools are funded in the state are under currently being reviewed and under consideration. How these changes impact Michigan school districts remains to be seen. Districts must continue to provide quality educational services to their students while effectively managing their resources within the ever changing financial landscape in Michigan education.

REQUEST FOR INFORMATION

This financial report is designed to provide our stakeholders with a general overview of the district's finances and to show the district's accountability for the funding it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Gratiot-Isabella RESD
Business Office
1131 E. Center Street, P.O. Box 310
Ithaca, MI 48847-0310

**District-Wide
Financial Statements**



Gratiot-Isabella Regional Education Service District
Statement of Net Assets - Governmental Activities
June 30, 2012

Assets

Current assets	
Cash and investments	\$ 9,209,654
Accounts receivable, net	28,954
Prepaid expenses	28,379
Due from other governmental units	<u>2,358,748</u>
Total current assets	<u>11,625,735</u>
Noncurrent assets	
Land	81,955
Capital assets, less accumulated depreciation	<u>3,474,653</u>
Total noncurrent assets	<u>3,556,608</u>
Total assets	<u>15,182,343</u>

Liabilities

Current liabilities	
Accounts payable	1,243,942
Salaries payable	829,617
Deferred revenues	446,543
Accrued expenses	403,306
Current portion of long-term obligations	<u>117,773</u>
Total current liabilities	<u>3,041,181</u>
Non-current liabilities	
Noncurrent portion of long-term obligations	740,915
Compensated absences	<u>79,658</u>
Total non-current liabilities	<u>820,573</u>
Total liabilities	<u>3,861,754</u>

Net assets

Invested in capital assets, net of related debt	2,697,920
Restricted for:	
Debt service	94
Unrestricted	<u>8,622,575</u>
Total net assets	<u>\$ 11,320,589</u>

Gratiot-Isabella Regional Education Service District
Statement of Activities - Governmental Activities
For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues		Net Revenues (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 5,966,712	\$ 338,378	\$ 8,737,987	\$ 3,109,653
Support services	11,215,809	553,274	3,427,934	(7,234,601)
Community service	2,001,827	-	-	(2,001,827)
Interest and fees on long-term debt	101,201	-	-	(101,201)
Other	5,274,470	-	-	(5,274,470)
Depreciation - unallocated	211,207	-	-	(211,207)
 Total school district	 \$ 24,771,226	 \$ 891,652	 \$ 12,165,921	 (11,713,653)
 General revenues:				
Property taxes				10,155,827
State aid not restricted to specific purposes				699,185
Unrestricted interest and investment earnings				8,127
Restricted interest and investment earnings				3,237
Other				764,062
 Total general revenues				 11,630,438
 Change in net assets				 (83,215)
 Net assets - beginning				 11,403,804
 Net assets - ending				 \$ 11,320,589

Fund Financial Statements



Gratiot-Isabella Regional Education Service District
Balance Sheet - Governmental Funds
June 30, 2012

	Major Funds						Total
	General	Special Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	
Assets							
Cash and investments	\$ 1,564,394	\$ 4,944,202	\$ 1,718,527	\$ 15,077	\$ 967,360	\$ 94	\$ 9,209,654
Accounts receivable, net	-	14,871	14,083	-	-	-	28,954
Prepaid expenses	5,000	22,700	679	-	-	-	28,379
Due from other funds	301,516	-	-	-	-	-	301,516
Due from other governmental units	124,163	1,617,537	321,698	295,350	-	-	2,358,748
Total assets	\$ 1,995,073	\$ 6,599,310	\$ 2,054,987	\$ 310,427	\$ 967,360	\$ 94	\$ 11,927,251
Liabilities							
Accounts payable	\$ 19,744	\$ 993,727	\$ 218,455	\$ 12,016	\$ -	\$ -	\$ 1,243,942
Salaries payable	7,195	795,040	134	27,248	-	-	829,617
Due to other funds	-	113,135	9,303	179,077	-	-	301,515
Deferred revenues	1,535	288,058	156,950	-	-	-	446,543
Accrued expenses	2,970	347,788	42	52,506	-	-	403,306
Total liabilities	31,444	2,537,748	384,884	270,847	-	-	3,224,923
Fund balance							
Nonspendable	5,000	22,700	679	-	-	-	28,379
Restricted	-	4,038,862	1,669,424	39,580	289,800	94	6,037,760
Committed:							
Future Bond Payments	-	-	-	-	677,560	-	677,560
Future Unemployment Costs	147,800	-	-	-	-	-	147,800
Undesignated	1,810,829	-	-	-	-	-	1,810,829
Total fund balance	1,963,629	4,061,562	1,670,103	39,580	967,360	94	8,702,328
Total liabilities and fund balance	\$ 1,995,073	\$ 6,599,310	\$ 2,054,987	\$ 310,427	\$ 967,360	\$ 94	\$ 11,927,251

See accompanying notes to financial statements.

Gratiot-Isabella Regional Education Service District
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 to the Net Assets of Governmental Activities on the Statement of Net Assets
 For the Year Ended June 30, 2012

Total fund balance - governmental funds		\$	8,702,328
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>			
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>			
Add: Cost of capital assets		\$	5,520,545
Deduct: Accumulated depreciation			<u>(1,963,937)</u>
			3,556,608
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>			
Compensated absences			
Deduct: Compensated absences payable			(79,658)
Long-term obligations			
Deduct: Durant bond issue			(15,756)
Deduct: MMNET loans payable			(17,322)
Deduct: 2009 improvement bonds			<u>(825,610)</u>
			<u>(858,688)</u>
Net assets of governmental activities		\$	<u><u>11,320,589</u></u>

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2012

	Major Funds						Total
	General	Special Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	
Revenues							
Local sources	\$ 678,148	\$ 9,516,973	\$ 860,426	\$ 59	\$ 3,237	\$ -	\$ 11,058,843
State sources	682,679	5,092,196	1,152,726	-	-	16,506	6,944,107
Federal sources	7,196	3,645,791	262,653	2,005,359	-	-	5,920,999
Other sources	155,856	338,378	269,828	-	-	-	764,062
Total revenues	1,523,879	18,593,338	2,545,633	2,005,418	3,237	16,506	24,688,011
Expenditures							
Instruction							
Added needs	-	5,987,530	-	-	-	-	5,987,530
Adult / continuing education	-	-	179,349	-	-	-	179,349
Total instruction	-	5,987,530	179,349	-	-	-	6,166,879
Support services							
Pupil	73,039	4,613,027	-	-	-	-	4,686,066
Instructional staff	467,091	10,336	462,800	-	-	-	940,227
Educational and media services	-	-	27,579	-	-	-	27,579
General administration	379,715	314,766	-	-	-	-	694,481
School administration	-	630,120	-	-	-	-	630,120
Business	633,523	98,286	-	-	-	-	731,809
Operation and maintenance	155,094	214,527	258,474	-	-	-	628,095
Pupil transportation	-	2,185,023	-	-	-	-	2,185,023
Central	221,061	177,598	293,750	-	-	-	692,409
Total support services	1,929,523	8,243,683	1,042,603	-	-	-	11,215,809
Community services	-	239	70,147	1,931,441	-	-	2,001,827
Debt service	-	-	-	-	-	101,201	101,201
Other	63,439	3,850,835	1,360,196	-	-	-	5,274,470
Total expenditures	1,992,962	18,082,287	2,652,295	1,931,441	-	101,201	24,760,186
Revenues over (under) expenditures	(469,083)	511,051	(106,662)	73,977	3,237	(84,695)	(72,175)
Other financing sources (uses)							
Operating transfers in	668,472	147,512	107,205	-	-	84,695	1,007,884
Operating transfers (out)	(226,819)	(596,387)	(26,061)	(73,922)	(84,695)	-	(1,007,884)
Net change in fund balance	(27,430)	62,176	(25,518)	55	(81,458)	-	(72,175)
Fund balance - beginning	1,991,059	3,999,386	1,695,621	39,525	1,048,818	94	8,774,503
Fund balance - ending	\$ 1,963,629	\$ 4,061,562	\$ 1,670,103	\$ 39,580	\$ 967,360	\$ 94	\$ 8,702,328

See accompanying notes to financial statements.

Gratiot-Isabella Regional Education Service District
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$	(72,175)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Add: Capital outlay		79,356
Deduct: Depreciation expense		(211,207)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Add: Decrease in accrual for compensated absences		4,387
<p>Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).</p>		
Add: Principal payment on 2009 improvement bonds		84,695
Add: Principal payment on Durant issue		15,040
Add: Principal payment on MMNET loan		16,689
		16,689
Change in net assets of governmental activities	\$	(83,215)

Gratiot-Isabella Regional Education Service District
Statement of Net Assets - Fiduciary Fund
June 30, 2012

Assets

Cash	\$ 46,713
Accounts receivable	<u>-</u>
Total assets	46,713

Liabilities

Accounts payable	<u>146</u>
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Net assets

Unrestricted	<u><u>\$ 46,567</u></u>
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Notes to the Financial Statements



Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Gratiot-Isabella Regional Education Service District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

Reporting Entity

The District is governed by a Board of Education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

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

District-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

- The general fund is 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.
- The debt service fund is used to record tax, interest, other revenue for payment, principal and other expenditures on bond issues.
- The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds. These resources are derived from contributions from the general fund.
- The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District has three special revenue funds; Cooperative Education Fund, Funded Projects Fund, and Special Education Fund.

Additionally, the District reports the following fund types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Fiduciary funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.

The fiduciary fund is accounted for using the cash basis of accounting, which does not have an effect materially different from reporting them on the accrual basis. This fund is used to account for assets that the governmental unit holds for others in an agency capacity. The District has one fiduciary fund.

Comparative Data / Reclassifications

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations.

Certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan

Property Tax Revenue

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

The taxable value for the District amounted to \$2,276,271,007, which includes \$759,064,703 attributable to non-homesteads. The District levied 0.2640 mills for general operations which totaled \$588,511. The District also levied 4.0345 mills for the purpose of special education services which totaled \$8,993,748.

State Aid Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide 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. The foundation allowance was based on pupil membership counts taken in September and February of the fiscal year.

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.

Inventory

Inventories, if any, are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30th.

Capital Assets

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

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

The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings and Improvements	5 - 50
Equipment	5 - 20
MMNet System	20
Technology Equipment	5 - 7
Vehicles	7

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Vacation days are accumulated at variable rates for administrative employees and other full time employees. The District's policy allows employees to accumulate vacation days earned and carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense when vacation days are actually taken. The vacation pay liability at June 30, 2012 is \$79,658. The vacation pay liability is reflected in the District-wide financial statements.

Sick days are accumulated at variable rates for all employees, depending on position and time of service. Amounts accumulated are paid to the employee and recognized as an expense when sick time is actually taken. Upon termination of employment all sick days are forfeited. Since accumulated sick leave does not vest with the employee, no amount is recognized as a liability in these financial statements.

Deferred Revenue

Deferred revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and District-wide financial statements, and revenue is recognized.

Long-Term Obligations

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

Net Assets and Fund Balances

Restricted net assets shown in the District-wide financial statements will generally be different from amounts reported as fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the District-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances

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

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects and Debt Service fund balances are considered restricted.

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

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

resources first to defer the use of these classified funds.

- Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Net Assets – Restrictions

Net assets in the District-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Unemployment Compensation

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. The District has designated fund balance for possible future claims.

Note 2 - Stewardship, Compliance and Accountability

Excess of Expenditures over Appropriations

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

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

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- Management 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.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2012. The District does not consider these amendments to be significant.

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison report as unfavorable variances.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

Note 3 - Deposits and Investments

At June 30, 2012, the carrying amount of the District's cash, deposits and investments was as follows:

Cash, Deposits and Investments	Carrying Amount
Petty Cash	\$ 500
Checking, Savings & Money Market Accounts	2,345,699
State Investment Pool – MILAF	6,863,455
Total	\$ 9,209,654

Deposits with Financial Institutions

At year-end, the carrying amount of the District's deposits was \$2,665,536 and the bank balance was \$2,587,853. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits that exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school Districts. MILAF is not regulated nor is it registered with the SEC. As of June 30, 2012, MILAF reports the fair value of the District's investments is the same as the value of the pool shares.

Investments

As of June 30, 2012, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool-MICMS	\$ 5,976,743	0.0027	AAAm	87.1%
MILAF External Investment pool-MIMAX	886,965	0.0027	AAAm	12.9%
Total fair value	\$ 6,863,708			100.0%
Portfolio weighted average maturity				
1 day maturity equals 0.0027, one year equals 1.00				

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

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

Concentration of credit risk - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

Custodial credit risk – deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments - For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

Note 4 - Accounts Receivable

Accounts receivable as of June 30th of each year is made up of various amounts due to Gratiot-Isabella Regional Educational Service District but not received until after year-end.

Note 5 - Due from Other Governmental Units

Due from other governmental units as of June 30th, consist of the following:

Due From	Amount
General Fund	
State of Michigan – State Aid	\$ 124,163
Special Education Fund	
State of Michigan – Flow through	831,335
State of Michigan – State Aid	786,202
Cooperative Education Fund	
MI Primary Care Association	10,942
MI Fitness Foundation	83,264
State of Michigan – MDCH	1,853
Great Start Readiness	170,712
Great Parents	54,216
Other	711
Funded Projects Fund	
EightCap – Adult	104,085
EightCap – Youth	104,459
EightCap – Dislocated Worker	20,949
EightCap – Wagner Peyser	31,860
EightCap – NAFTA (Trade)	2,204
EightCap – TAAEA	1,392
EightCap – TGAAA	5,013
EightCap – ARRA	16,744
EightCap – EUC	8,644
Total	\$ 2,358,748

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

Note 6 - Receivables and Payables

In the fund financial statements the amounts of interfund receivables and payables as of June 30th are as follows:

Fund	Due From	Due To
General	\$ 301,515	\$ -
Special Education	-	113,135
Cooperative Education	-	9,303
Funded Projects	-	179,077
Capital Projects	-	-
Total	\$ 301,515	\$ 301,515

Note 7 - Prepaid Expenses

Prepaid expenses as of June 30th represent expenditures paid prior to year-end that are allocable to future periods for dental/vision insurance.

Note 8 - Capital Assets

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

Capital Assets	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 81,955	\$ -	-	\$ 81,955
Buildings and Improvements	4,486,479	70,484	-	4,556,963
Equipment	384,494	8,873	-	393,367
Furniture	27,975	-	-	27,975
MMNet System	184,395	-	-	184,395
Technology Equipment	275,890	-	-	275,890
Total Capital Assets	5,441,188	79,356	-	5,520,545
Accumulated Depreciation				
Buildings and Improvements	(1,247,485)	(138,397)	-	(1,385,882)
Equipment	(301,649)	(15,642)	-	(317,291)
Furniture	(2,798)	(2,797)	-	(5,595)
MMNet System	(119,857)	(9,220)	-	(129,077)
Technology Equipment	(80,941)	(45,151)	-	(126,092)
Total Accumulated Depreciation	(1,752,730)	(211,207)	-	(1,963,937)
Net Capital Assets	\$ 3,688,459	\$ (131,851)	-	\$ 3,556,608

Depreciation for the year ended June 30th totaled \$211,207. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

Note 9 - Salaries Payable

Salaries payable represent the remaining balance on teacher contracts to be paid during the summer and other wages earned but not paid as of June 30th.

Note 10 - Accrued Expenses

Accrued expenses as of June 30th are as follows:

Accrued Expense	Amount
Retirement	\$ 201,857
FICA	63,399
Fringes	92,792
Unemployment	44,772
Other	486
Total	\$ 403,306

Note 11 - Deferred Revenue

Deferred revenue represents cash received in advance of the period in which it was earned. Revenues in excess of expenditures on special purpose grants are recorded as deferred revenues until spent or refunded to the grantor. Gratiot-Isabella RESD incurred the following deferred revenue as of the end of the current fiscal year:

Deferred Revenue	Amount
ECIC	\$ 94,533
State of Michigan	259,781
Liberty Fuel Tax Tribunal	92,061
Other	168
Total	\$ 446,543

Note 12 - Long-term Debt

1998 School Improvement Bonds

As a result of the Durant Settlement, the District is expected to receive approximately \$470,134. One-half of the settlement (\$235,067) was paid to the District in ten equal payments beginning in November 1998. These payments were recorded as revenue in the General fund when received.

The District elected to receive the balance of the settlement by participating in the bonding program. Consequently, the District borrowed \$235,067 from the School Loan Bond Fund and makes the annual principal and interest payments from the annual appropriation from the State of Michigan. The State of Michigan is the only revenue source for making the annual debt service payments on the bonds. However, if the legislature fails to appropriate the funds, the District is under no obligation for payment.

Restrictions on the use of these funds are stated in the Revised School Code Part 17, Sections 1351 and include the following: school buses, electronic instructional material and software, textbooks, technology, infrastructure or infrastructure improvement, school security, training for technology, or to reduce or eliminate certain voter-approved debt. For additional information see the bond payment schedule included in the back of this report.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

MMNET

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). See additional disclosures regarding MMNET in these notes. As a member MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services. Therefore, the District entered into four separate installment purchase agreements for the purchase of the necessary equipment and services. Each purchase agreement has a stated interest rate of 5.68% and calls for equal, semi-annual payments.

The following is a summary of the installment purchase agreements:

Vendor	Description	Cost	Annual Payment
ITS Tech., LLC	Data Electronics	\$ 19,325	\$ 1,967
I.T.I., Inc.	Voice Electronics	33,250	3,384
FLI Comm. Corp.	Video Electronics	57,200	5,822
Fiber Link, Inc.	Fiber Optical Filaments	74,620	7,391
Total		\$ 184,395	\$ 18,564

Changes in general long-term debt during the year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Comp. Absences	\$ 84,045	-	\$ (4,387)	\$ 79,658	\$ -	\$ 79,658
MMNET Loan	34,011	-	(16,689)	17,322	(17,322)	-
Durant Bonds	30,796	-	(15,040)	15,756	(15,756)	-
2009 Improvement Bonds	910,305	-	(84,695)	825,610	(84,695)	740,915
Total	\$1,059,157	-	\$ (120,811)	\$ 938,346	\$ (117,773)	\$ 820,573

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2012 are shown in the *Schedule of Long-Term Debt* at the back of this report.

Note 13 – Transfers between funds

During the year the following transfers were made between funds:

The general fund made the following transfers to -	Total
Special education fund for general expenditures.	\$ 147,512
Cooperative education fund for general expenditures	79,307
The cooperative education fund made the following transfers to -	
General fund for general expenditures.	26,061
The funded projects fund made the following transfers to -	
General fund for general expenditures.	73,922
The special education fund made the following transfers to -	
Cooperative education fund for general expenditures.	27,898
General fund for general expenditures.	568,489
The capital projects fund made the following transfers to -	
Debt fund for general expenditures.	84,695
Total	\$ 1,007,884

Note 14 - Employee Retirement System

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

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

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2011 was 20.66% of payroll and increased to 24.46% for the base plan and 23.23% for pension plus members effective October 1, 2011 through October 31, 2012 at which time it increased again due to the number of retirees associated with the early retirement incentive to 27.37% for basic plan members and 26.14% for pension plus members for the period October 1, 2012 through September 30, 2013. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District's contributions to MPERS for the years ended June 30, 2012, 2011, and 2010, were \$2,047,756, \$1,825,644, \$1,607,388, respectively, and were equal to the required contribution for those years.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2012

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

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

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

Note 15 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims for the commercial insurance, if any, have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Note 16 - Joint Venture

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services. Gratiot-Isabella RESD is the administrative agent for MMNET. Information regarding the purchase of equipment and services is shown in the above notes.

The MMNET Consortium was established by a previously approved inter-local Consortium Agreement among the following entities: Beal City Public Schools, Breckenridge Community Schools, Clinton County RESA, Central Montcalm Public Schools, DeWitt Public Schools, Fulton Schools, Gratiot-Isabella RESD, Ovid-Elsie Area Schools, and St. Johns Public Schools. The purpose of MMNET is to provide for interactive voice/video/data interconnections and services required for, or useful in, the instruction and training of students and other persons utilizing the participants services, the conducting of research, or the administrative operations of the participants; and to enable the participants to cooperatively share their resources for the ownership, financing, installation, administration and operation of MMNET.

Requests for additional financial information relating to MMNET should be addressed to:

Gratiot-Isabella RESD
Business Office
1131 E. Center Street, P.O. Box 310
Ithaca, MI 48847-0310

Required Supplemental Information

Budgetary Comparison Schedules



Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 655,500	\$ 677,414	\$ 678,148	\$ 734
State sources	682,000	677,900	682,679	4,779
Federal sources	5,000	7,200	7,196	(4)
Other sources	96,000	140,000	155,856	15,856
Total revenues	1,438,500	1,502,514	1,523,879	21,365
Expenditures				
Support services				
Pupil	70,012	72,660	73,039	(379)
Instructional staff	476,553	482,370	467,091	15,279
General administration	403,890	404,250	379,715	24,535
Business	665,340	674,350	633,523	40,827
Operation and maintenance	186,719	165,200	155,094	10,106
Central	202,055	222,720	221,061	1,659
Total support services	2,004,569	2,021,550	1,929,523	92,027
Other	36,000	66,488	63,439	3,049
Total expenditures	2,040,569	2,088,038	1,992,962	95,076
Revenues over (under) expenditures	(602,069)	(585,524)	(469,083)	116,441
Other financing sources (uses)				
Operating transfers in	588,415	650,000	668,472	18,472
Operating transfers (out)	(253,500)	(226,512)	(226,819)	(307)
Net change in fund balance	(267,154)	(162,036)	(27,430)	134,606
Fund balance - beginning	1,991,059	1,991,059	1,991,059	-
Fund balance - ending	\$ 1,723,905	\$ 1,829,023	\$ 1,963,629	\$ 134,606

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Special Education Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 9,272,000	\$ 9,471,200	\$ 9,516,973	\$ 45,773
State sources	4,939,644	5,042,744	5,092,196	49,452
Federal sources	3,910,057	3,844,321	3,645,791	(198,530)
Other sources	220,000	300,000	338,378	38,378
Total revenues	18,341,701	18,658,265	18,593,338	(64,927)
Expenditures				
Instruction				
Added needs	6,071,946	6,096,313	5,987,530	108,783
Total instruction	6,071,946	6,096,313	5,987,530	108,783
Support services				
Pupil	4,828,341	4,783,345	4,613,027	170,318
Instructional staff	11,955	11,500	10,336	1,164
General administration	318,021	302,517	314,766	(12,249)
School administration	592,742	634,393	630,120	4,273
Business	133,300	132,800	98,286	34,514
Operation and maintenance	232,170	223,919	214,527	9,392
Pupil transportation	2,117,000	2,270,000	2,185,023	84,977
Central	136,747	180,780	177,598	3,182
Total support services	8,370,276	8,539,254	8,243,683	295,571
Community services	500	500	239	261
Other	4,228,000	3,958,566	3,850,835	107,731
Total expenditures	18,670,722	18,594,633	18,082,287	512,346
Revenues over (under) expenditures	(329,021)	63,632	511,051	447,419
Other financing sources (uses)				
Operating transfers in	180,000	147,512	147,512	-
Operating transfers (out)	(645,717)	(612,690)	(596,387)	16,303
Net change in fund balance	(794,738)	(401,546)	62,176	463,722
Fund balance - beginning	3,999,386	3,999,386	3,999,386	-
Fund balance - ending	\$ 3,204,648	\$ 3,597,840	\$ 4,061,562	\$ 463,722

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Cooperative Education Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 965,850	\$ 812,950	\$ 860,426	\$ 47,476
State sources	163,811	1,283,800	1,152,726	(131,074)
Federal sources	291,365	341,280	262,653	(78,627)
Other sources	245,750	269,600	269,828	228
Total revenues	<u>1,666,776</u>	<u>2,707,630</u>	<u>2,545,633</u>	<u>(161,997)</u>
Expenditures				
Instruction				
Adult / continuing education	379,852	179,290	179,349	(59)
Total instruction	<u>379,852</u>	<u>179,290</u>	<u>179,349</u>	<u>(59)</u>
Support services				
Instructional staff	416,664	514,517	462,800	51,717
Educational and media services	21,739	27,800	27,579	221
Operation and maintenance	431,868	398,440	258,474	139,966
Central	288,949	303,628	293,750	9,878
Total support services	<u>1,159,220</u>	<u>1,244,385</u>	<u>1,042,603</u>	<u>201,782</u>
Community services	63,700	70,669	70,147	522
Debt service	-	-	-	-
Total expenditures	<u>1,602,772</u>	<u>1,494,344</u>	<u>1,292,099</u>	<u>202,245</u>
Revenues over (under) expenditures	64,004	1,213,286	1,253,534	40,248
Other financing sources (uses)				
Operating transfers in	95,000	265,898	107,205	(158,693)
Operating transfers (out)	(558,906)	(1,673,972)	(1,386,257)	287,715
Net change in fund balance	(399,902)	(194,788)	(25,518)	169,270
Fund balance - beginning	<u>1,695,621</u>	<u>1,695,621</u>	<u>1,695,621</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 1,295,719</u></u>	<u><u>\$ 1,500,833</u></u>	<u><u>\$ 1,670,103</u></u>	<u><u>\$ 169,270</u></u>

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Funded Projects Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ -	\$ -	\$ 59	\$ 59
Federal sources	1,885,744	2,173,753	2,005,359	(168,394)
Total revenues	<u>1,885,744</u>	<u>2,173,753</u>	<u>2,005,418</u>	<u>(168,335)</u>
Expenditures				
Community services	1,824,288	2,076,081	1,931,441	144,640
Total expenditures	<u>1,824,288</u>	<u>2,076,081</u>	<u>1,931,441</u>	<u>144,640</u>
Revenues over (under) expenditures	61,456	97,672	73,977	(23,695)
Other financing sources (uses)				
Operating transfers (out)	<u>(61,456)</u>	<u>(97,672)</u>	<u>(73,922)</u>	<u>23,750</u>
Net change in fund balance	-	-	55	55
Fund balance - beginning	<u>39,525</u>	<u>39,525</u>	<u>39,525</u>	<u>-</u>
Fund balance - ending	<u>\$ 39,525</u>	<u>\$ 39,525</u>	<u>\$ 39,580</u>	<u>\$ 55</u>

Other Supplemental Information



Gratiot-Isabella Regional Education Service District
General Fund
Statement of Revenues
For the Years Ended June 30, 2012

Local sources	
Property taxes	\$ 587,734
Interest	5,151
Other local revenues	<u>85,263</u>
Total local sources	<u>678,148</u>
State sources	
Grants	<u>682,679</u>
Total state sources	<u>682,679</u>
Federal sources	
Grants	<u>7,196</u>
Total federal sources	<u>7,196</u>
Other financing sources	
Other sources	155,856
Transfers from other funds	<u>668,472</u>
Total other financing sources	<u>824,328</u>
Total general fund revenues and other financing sources	<u><u>\$ 2,192,351</u></u>

Gratiot-Isabella Regional Education Service District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2012

Support services

Pupil

Attendance	\$ 43,092
Salaries	20,523
Employee benefits	9,424
Purchased services	<u>9,424</u>
Total pupil	<u>73,039</u>

Instructional staff

Audiovisual

Salaries	189,796
Employee benefits	119,385
Purchased services	21,584
Supplies and materials	1,494
Other	<u>3,093</u>

Total audiovisual	<u>335,352</u>
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Curriculum coordinator

Salaries	72,828
Employee benefits	42,253
Purchased services	14,868
Other	<u>1,790</u>

Total curriculum coordinator	<u>131,739</u>
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Total instructional staff	<u>467,091</u>
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General administration

Board of education

Employee benefits	288
Purchased services	<u>70,605</u>

Total board of education	<u>70,893</u>
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Executive administration

Salaries	188,473
Employee benefits	94,222
Purchased services	12,294
Supplies and materials	1,074
Other	<u>12,759</u>

Total executive administration	<u>308,822</u>
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Total general administration	<u>379,715</u>
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Gratiot-Isabella Regional Education Service District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2012

Support services (continued)

Business

Fiscal services

Salaries	\$ 315,273
Employee benefits	189,229
Purchased services	<u>6,367</u>

Total fiscal services	<u>510,869</u>
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Internal services

Salaries	43,828
Employee benefits	27,671
Purchased services	6,721
Supplies and materials	36,814
Capital outlay	<u>978</u>

Total internal services	<u>116,012</u>
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Other business services

Purchased services	5,474
Other	<u>1,168</u>

Total other business services	<u>6,642</u>
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Total business	<u>633,523</u>
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Operations and maintenance

Salaries	43,992
Employee benefits	33,441
Purchased services	33,097
Supplies and materials	<u>44,564</u>

Total operations and maintenance	<u>155,094</u>
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Central

Central support services

Salaries	37,287
Employee benefits	18,267
Purchased services	<u>1,764</u>

Total central support services	<u>57,318</u>
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Gratiot-Isabella Regional Education Service District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2012

Support services (continued)

Planning, research and development and evaluation	
Salaries	\$ 28,109
Employee benefits	13,103
Purchased services	<u>122,531</u>
Total planning, research and development and evaluation	<u>163,743</u>
Total central	<u>221,061</u>
Total support services	<u>1,929,523</u>
Payments to other schools	63,439
Outgoing transfers	<u>226,819</u>
Total outgoing transfers and other transactions	<u>290,258</u>
Total expenditures	<u><u>\$ 2,219,781</u></u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Revenues
For the Year Ended June 30, 2012

Local sources	
Property taxes	\$ 8,876,858
Interest	2,976
Other local revenues	<u>637,139</u>
Total local sources	<u>9,516,973</u>
 State sources	
Restricted	
Membership - section 52	1,268,284
Renaissance Zone	28,478
Special education - section 51	3,038,966
Special education - section 53	136,744
Special education - section 56	619,724
School for deaf/blind - section 54	-
Benefits - fica & retirement	<u>-</u>
Total state sources	<u>5,092,196</u>
 Federal sources	
Restricted	
P.L. 94-142 flowthrough	3,271,453
P.L. 94-142 preschool incentive	132,517
P.L. 94-142 state initiated projects - EOSD	50,000
Transition service	58,000
Infant / toddler formula	<u>133,821</u>
Total federal sources	<u>3,645,791</u>
 Other financing sources	
Transfers from other funds	147,512
Payments from other school districts	<u>338,378</u>
Total other financing sources	<u>485,890</u>
Total revenues	<u><u>\$ 18,740,850</u></u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Instruction

Added needs

Special education

Salaries	\$ 3,109,637
Employee benefits	2,134,221
Purchased services	114,606
Supplies and materials	18,699
Payments to other schools for services	610,367
Capital outlay	-

Total special education	5,987,530
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Total added needs	5,987,530
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Support services

Pupil services

Health services

Salaries	704,336
Employee benefits	383,033
Purchased services	121,993
Supplies and materials	7,325

Total health services	1,216,687
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Psychological services

Salaries	348,471
Employee benefits	180,452
Purchased services	12,909
Payments to other schools for services	-
Supplies and materials	8,874

Total psychological services	550,706
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Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Support services (continued)

Pupil services

Speech pathology services

Salaries	\$ 1,006,095
Employee benefits	518,196
Purchased services	37,885
Payments to other schools for services	-
Supplies and materials	4,104

Total speech pathology services	1,566,280
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Social worker services

Salaries	312,574
Employee benefits	185,466
Purchased services	25,983
Payments to other schools for services	-
Supplies and materials	383

Total social worker services	524,406
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Teacher consultant services

Salaries	199,343
Employee benefits	105,127
Purchased services	66,688
Supplies and materials	1,299

Total teacher consultant services	372,457
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Other pupil services

Salaries	237,475
Employee benefits	121,727
Purchased services	18,244
Supplies and materials	5,045
Other	-

Total other pupil services	382,491
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Total pupil services	4,613,027
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Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Support services (continued)

Instructional staff	
Improvement of instruction	
Salaries	\$ -
Employee benefits	-
Purchased services	8,332
Supplies and materials	2,004
	<hr/>
Total improvement of instruction	10,336
	<hr/>
Total instructional staff	10,336
	<hr/>
General administration	
Board of education	
Purchased services	35,357
	<hr/>
Total board of education	35,357
	<hr/>
Executive administration	
Salaries	147,213
Employee benefits	128,172
Purchased services	3,484
Supplies and materials	-
Other	540
	<hr/>
Total executive administration	279,409
	<hr/>
Total general administration	314,766
	<hr/>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Support services (continued)

School administration	
Supervision and direction of instructional staff	
Salaries	\$ 361,517
Employee benefits	239,810
Purchased services	14,019
Other	14,774
	<hr/>
Total school administration	630,120
	<hr/>
Business services	
Internal services	
Purchased services	8,131
Supplies and materials	14,309
	<hr/>
Total internal services	22,440
	<hr/>
Other business services	
Purchased services	48,909
Other	26,937
	<hr/>
Total other business services	75,846
	<hr/>
Total business services	98,286
	<hr/>
Operations and maintenance	
Salaries	34,058
Employee benefits	21,769
Purchased services	30,773
Supplies and materials	127,618
Payments to Other Schools	309
	<hr/>
Total operations and maintenance	214,527
	<hr/>
Pupil transportation	
Contracted services	2,185,023
	<hr/>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Support services (continued)

Central	
Planning, research development and evaluation	
Salaries	\$ 35,214
Employee benefits	12,101
Contracted services	<u>1,276</u>
Total planning, research development and evaluation	<u>48,591</u>
Data processing	
Salaries	26,006
Employee benefits	20,034
Purchased services	82,967
Supplies and materials	<u>-</u>
Total data processing	<u>129,007</u>
Total central	<u>177,598</u>
Total support services	<u>8,243,683</u>
Community services	
Parent training	
Purchased services	<u>239</u>
Outgoing transfers and other transactions	
Payments to other districts	
Special education programs	3,722,888
Other	127,947
Transfers to other funds	<u>596,387</u>
Total outgoing transfers and other transactions	<u>4,447,222</u>
Total expenditures	<u><u>\$ 18,678,674</u></u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Revenues and Expenditures
 For the Years Ended June 30, 2012

Revenues	
Local sources	\$ 860,426
State sources	1,152,726
Federal sources	<u>262,653</u>
Total revenues	<u>2,275,805</u>
Other financing sources	
Transfers In	107,205
Other	<u>269,828</u>
Total revenues and other financing sources	<u>2,652,838</u>
Expenditures	
Instruction	
High School/Adult Occupational Training	<u>179,349</u>
Total instruction	<u>179,349</u>
Support services	
Instructional staff	462,800
Educational and media services	27,579
Operation and maintenance	258,474
Central	293,750
Community services	<u>70,147</u>
Total support services	<u>1,112,750</u>
Payments to other school districts	1,360,196
Outgoing transfers and other transactions	<u>26,061</u>
Total Outgoing transfers and other transactions	<u>1,386,257</u>
Total expenditures	<u><u>\$ 2,678,356</u></u>

Gratiot-Isabella Regional Education Service District
Funded Projects Fund
Statement of Revenues and Expenditures
For the Years Ended June 30, 2012

Revenues

Local sources	\$ 59
Federal sources	<u>2,005,359</u>
Total revenues	<u>2,005,418</u>

Expenditures

Community services	1,931,441
Outgoing transfers and other transactions	<u>73,922</u>
Total expenditures	<u><u>\$ 2,005,363</u></u>

Gratiot-Isabella Regional Education Service District
Capital Projects Fund
Statement of Revenues and Expenditures
For the Years Ended June 30, 2012

Revenues

Local sources	\$ 3,237
Transfer in from other funds	-
	<hr/>
Total revenues	<u>3,237</u>

Expenditures

Operations and maintenance	-
Outgoing transfers and other transactions	84,695
	<hr/>
Total expenditures	<u><u>\$ 84,695</u></u>

Gratiot-Isabella Regional Education Service District
Schedule of Long-Term Debt
For the Year Ended June 30, 2012

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
Durant Bonds - \$235,067					
Due May 1, 2013	4.76	15,756	-	750	16,506
Total Durant issue		<u>\$ 15,756</u>	<u>\$ -</u>	<u>\$ 750</u>	<u>\$ 16,506</u>

The State School Aid Act, as amended by Public Act 142 of 1997 provided appropriations as part of a settlement to school districts involved in the Durant litigation as well as schools not involved in the litigation. The Michigan Municipal Bond Authority (MMBA) issued bonds for those districts that elected to receive a lump sum amount from the MMBA rather than receive part of the settlement in fifteen annual payments.

MMNet Loan - \$184,395

Due May & Nov 15, 2013	5.68	17,322	326	164	17,812
		<u>\$ 17,322</u>	<u>\$ 326</u>	<u>\$ 164</u>	<u>\$ 17,812</u>

2009 School Improvement Bonds - \$995,000

Due October 1, 2012	0.00	84,695	-	-	84,695
2013	0.00	84,695	-	-	84,695
2014	0.00	84,695	-	-	84,695
2015	0.00	84,695	-	-	84,695
2016	0.00	84,695	-	-	84,695
2017	0.00	84,695	-	-	84,695
2018	0.00	84,695	-	-	84,695
2019	0.00	232,745	-	-	232,745
		<u>\$ 825,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 825,610</u>

The District is to make annual contributions of \$84,695 to a set-aside account. On October 1, 2019, the District is to repay the bond in full from the set-aside deposits and interest earned on those deposits. If the balance in the set-aside account does not equal the principal due, the District shall increase or decrease the account accordingly. This potential adjustment to the set-aside account has been shown as a balloon payment on October 1, 2019 in the table above.

Gratiot-Isabella Regional Education Service District
 Schedule of Long-Term Debt
 For the Year Ended June 30, 2012

Fiscal Year Ending	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
Summary					
2013		117,773	326	914	119,013
2014		84,695	-	-	84,695
2015		84,695	-	-	84,695
2016		84,695	-	-	84,695
2017		84,695	-	-	84,695
2018		84,695	-	-	84,695
2019		84,695	-	-	84,695
2020		232,745	-	-	232,745
		<u>\$ 858,688</u>	<u>\$ 326</u>	<u>\$ 914</u>	<u>\$ 859,928</u>



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

Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella Regional Education Service District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 10, 2012. The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, its Board, 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.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
October 10, 2012

**Gratiot-Isabella Regional
Education Service District**

Federal Awards
(Supplementary Information
To Financial Statements)
June 30, 2012



Gratiot-Isabella Regional Education Service District
Federal Awards
Supplementary Information to Financial Statements
June 30, 2012

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**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

Compliance

We have audited Gratiot-Isabella Regional Education Service District's (the District's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Gratiot-Isabella Regional Education Service District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella Regional Education Service District, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise Gratiot-Isabella Regional Education Service District's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Education, 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.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 10, 2012

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 6/30/2011	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 6/30/2012	Federal Revenue Recognized
U.S. DEPARTMENT OF EDUCATION								
Passed Through The Michigan								
Department Of Education:								
Improving Teacher Quality State Grants	84.367	110520-1012	712	\$ -	\$ -	\$ 712	\$ (712)	\$ 712
Improving Teacher Quality State Grants	84.367	110520-1011	712	(712)	712	-	-	-
Total 84.367				(712)	712	712	(712)	712
<i>Special Education Cluster</i>								
Special Education Grants to States (IDEA, Part B)								
PL 94-142 Flow Through	a 84.027	110450-1011	3,288,249	(798,098)	893,597	124,657	(29,158)	124,657
PL 94-142 Flow Through	a 84.027	120450-1112	3,282,540	-	2,391,637	3,131,824	(740,187)	3,131,824
Transition Services	a 84.027	120490-TS	58,000	-	50,030	58,000	(7,970)	58,000
State Initiated/Competitive	a 84.027	120480-EOSD	50,000	-	50,000	50,000	-	50,000
State Initiated/Competitive	a 84.027	110480-EOSD	50,000	(12,319)	12,319	-	-	-
Total 84.027				(810,417)	3,397,583	3,364,481	(777,315)	3,364,481
Special Education Grants to States (IDEA, Part B), Recovery Act	a 84.391	100455-0910	3,381,692	(349,543)	364,515	14,972	-	14,972
Special Education - Preschool Grants (IDEA, Preschool)	a 84.173	110460-1011	132,662	(35,382)	35,382	-	-	-
Special Education - Preschool Grants (IDEA, Preschool)	a 84.173	120460-1112	132,517	-	96,072	132,517	(36,445)	132,517
Total 84.173				(35,382)	131,454	132,517	(36,445)	132,517
Special Education - Preschool Grants (IDEA, Preschool), Recovery Act	a 84.392	100465-0910	113,197	(11,852)	11,852	-	-	-
Total special education cluster				(1,207,194)	3,905,404	3,511,970	(813,760)	3,511,970
<i>Early Intervention Services (IDEA) Cluster</i>								
Special Education - Grants for Infants and Families, Recovery Act	c 84.393	101345-190	158,101	(13,999)	23,581	9,582	-	9,582
Special Education - Grants for Infants and Families	c 84.181	091340-190	149,952	(4,193)	4,193	-	-	-
Special Education - Grants for Infants and Families	c 84.181	111340-190	134,239	(15,711)	95,964	80,253	-	80,253
Special Education - Grants for Infants and Families	c 84.181	121340-190	116,354	-	26,411	43,986	(17,575)	43,986
Total 84.181				(19,904)	126,568	124,239	(17,575)	124,239
Total early intervention services (IDEA) cluster				(33,903)	150,149	133,821	(17,575)	133,821
Safe and Drug-Free Schools and Communities - State Grants	84.186	112860-1011	110,729	(6,379)	6,379	-	-	-
Education Jobs Fund	84.410	112545-1011	49,040	(11,319)	11,319	-	-	-
Total Passed Through State Department of Education				(1,259,507)	4,073,963	3,646,503	(832,047)	3,646,503
Passed Through Michigan Fitness Foundation								
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	NA	225,280	-	115,880	198,143	(82,263)	198,143
Passed Through Montcalm Area ISD								
Career and Technical Education - Basic Grants to States	84.048	NA	7,196	-	7,196	7,196	-	7,196
Total U.S. Department of Education				(1,259,507)	4,197,039	3,851,842	(914,310)	3,851,842

See accompanying notes to schedule of expenditures of federal awards.

GRATIOT-ISABELLA REGIONAL EDUCATION SERVICE DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 6/30/2011	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 6/30/2012	Federal Revenue Recognized
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed Through The State Of Michigan								
Department Of Community Mental Health: Medical Assistance Program	93.778	NA	63,798	\$ -	\$ 63,798	\$ 63,798	\$ -	\$ 63,798
Total U.S. Department of Health And Human Services				-	63,798	63,798	-	63,798
U.S. DEPARTMENT OF LABOR								
Passed Through Central Area Michigan								
Works Consortium:								
Trade Adjustment Assistance	17.245	NA	496,612	(54,865)	282,597	236,341	(8,609)	236,341
<i>WIA Cluster</i>								
WIA Adult Program	b 17.258	NA	1,043,499	(317,939)	821,749	607,895	(104,085)	607,895
WIA Adult Program	b 17.258	NA		(6,805)	6,805	-	-	-
WIA Adult Program	b 17.258	NA		(17,964)	17,964	-	-	-
WIA Adult Program, Recovery Act	b 17.258	NA		(20,375)	20,375	-	-	-
Total 17.258				<u>(363,083)</u>	<u>866,893</u>	<u>607,895</u>	<u>(104,085)</u>	<u>607,895</u>
WIA Youth Activities	b 17.259	NA	731,745	(90,737)	655,094	668,816	(104,459)	668,816
WIA Dislocated Worker	b 17.278	NA	303,349	(83,587)	277,808	215,170	(20,949)	215,170
WIA Dislocated Worker, Recovery Act	b 17.278	NA	59,964	(8,522)	57,637	65,859	(16,744)	65,859
Total 17.278				<u>(92,109)</u>	<u>335,445</u>	<u>281,029</u>	<u>(37,693)</u>	<u>281,029</u>
Total WIA cluster				<u>(545,929)</u>	<u>1,857,432</u>	<u>1,557,740</u>	<u>(246,237)</u>	<u>1,557,740</u>
Employment Service/Wagner-Peyser Funded Activities	17.207	NA		-	10,087	18,731	(8,644)	18,731
Employment Service/Wagner-Peyser Funded Activities	17.207	NA	179,073	(20,502)	181,189	192,547	(31,860)	192,547
Total for 17.207				<u>(20,502)</u>	<u>191,276</u>	<u>211,278</u>	<u>(40,504)</u>	<u>211,278</u>
Total U.S. Department Of Labor				(621,296)	2,331,305	2,005,359	(295,350)	2,005,359
TOTALS				\$ (1,880,803)	\$ 6,592,142	\$ 5,920,999	\$ (1,209,660)	\$ 5,920,999

- (a) indicates programs included under the special education cluster
 (b) indicates programs included under the WIA cluster
 (c) indicates programs included under the early intervention services cluster

Gratiot-Isabella Regional Education Service District
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Gratiot-Isabella Regional Education Service 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* and reconciles with amounts presented in the financial statements.

Note 2.

The following programs represent 65% of federal program expenditures and were audited as major programs:

- CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Special Education Cluster

- CFDA #84.027 – Special Education – Grants to States (IDEA, Part B)
- CFDA #84.391 – Special Education – Grants to States (IDEA, Part B) Recovery Act
- CFDA #84.173 – Special Education – Preschool Grants (IDEA, Preschool)
- CFDA #84.392 – Special Education – Preschool Grants (IDEA, Preschool) Recovery Act

Early Intervention Services (IDEA) Cluster

- CFDA #84.181 – Special Education – Grants for Infants and Families
- CFDA #84.393 – Special Education – Grants for Infants and Families, Recovery Act

Note 3.

The threshold for distinguishing Type A and B programs was \$300,000.

Note 4.

Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.

Note 5.

Management has utilized the Grant Auditor Report (Cash Management System) in preparing the schedule of expenditures of federal awards.

Note 6.

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported on page 5 in the financial statements.

Gratiot-Isabella Regional Education Service District
Schedule of Findings and Questioned Cost
Year Ended June 30, 2012

Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's opinion issued: Unqualified.

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No.

FEDERAL AWARDS

Internal control over major program:

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

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

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

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

Auditee qualified as low-risk auditee? Yes.

Identification of major programs:

- CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
- Special Education Cluster*
- CFDA #84.027 – Special Education – Grants to States (IDEA, Part B)
 - CFDA #84.391 – Special Education – Grants to States (IDEA, Part B) Recovery Act
 - CFDA #84.173 – Special Education – Preschool Grants (IDEA, Preschool)
 - CFDA #84.392 – Special Education – Preschool Grants (IDEA, Preschool) Recovery Act
- Early Intervention Services (IDEA) Cluster*
- CFDA #84.181 – Special Education – Grants for Infants and Families
 - CFDA #84.393 – Special Education – Grants for Infants and Families, Recovery Act

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

Gratiot-Isabella Regional Education Service District
Schedule of Prior Year Findings
Year Ended June 30, 2012

There were no findings for the year ended June 30, 2011.



MANAGEMENT LETTER

Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

In planning and performing our audit of the financial statements for Gratiot-Isabella Regional Education Service District for the fiscal year ended June 30, 2012, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following pages that accompany this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our audit report dated October 10, 2012 on the financial statements of Gratiot-Isabella Regional Education Service District.

We will review the status of these comments during our next audit engagement. We have discussed these comments and recommendations with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Gratiot-Isabella Regional Education Service 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.

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

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 10, 2012

Gratiot-Isabella Regional Education Service District
Management Letter

Status of Prior Year Comments and Recommendations

We were pleased to see that management has implemented most of the recommendations we included in our previously issued Management Letter.

Current Year Comments and Recommendations

We have no current year comments or recommendations