

**Gratiot-Isabella Regional
Education Service District**

***Financial Statements
With Supplemental Information
June 30, 2013***



Gratiot-Isabella Regional Education Service District
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June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Gratiot-Isabella RESD

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella RESD (the District), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and 2012, and the respective changes in financial position, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, during the year the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of the implementation of these Statements, the financial statements have been changed to reflect the new presentations required by GASB Statements No. 63 and No. 65, as applicable. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013 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* in considering the District's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C." The signature is written in black ink and is positioned above the typed name of the firm.

Roslund, Prestage & Company, P.C.
October 14, 2013

Management's Discussion and Analysis



Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Our discussion and analysis of the Gratiot-Isabella Regional Education Service District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2013. Please read this discussion and analysis in conjunction with the District's financial statement beginning on page 1.

I. Description of the Basic Financial Statements

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities on pages 1 and 2 provide information concerning the operation of the District as a whole. This reporting model takes into consideration the cost of capital assets of the district, as well as, reflects the District's operations on the accrual basis of accounting similar to that used in the private sector. Most notable is the fact that capital assets are not recorded as an expense at the time of purchase. Instead, under this model, capital assets are depreciated over their expected life. Accumulated depreciation is recorded as an offset to capital assets. This reporting model is intended to present a clearer picture of the cost of utilizing capital assets in the District's operations. This model generally has a long-term focus.

Fund Financial Statements

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance on pages 3 and 5 provide financial information for the individual governmental funds. The focus of this presentation is to present resources available at the beginning of the year, the receipt and use of resources during the year, and the balance of resources available at year-end to be used in future years. This model is referred to as modified accrual and is focused on available spendable resources. This model generally has a short-term focus.

Reconciliation

The statements on pages 4 and 6 reconcile the differences between the District-Wide Financial Statements and the Fund Financial Statements.

Trust and Agency Funds

The Statement of Net Position - Fiduciary Fund present the resource held for the benefit of other individuals and/or entities. These amounts are not reflected in the Government-Wide Financial Statements because these resources are not intended to be used to finance the operations of the District.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

II. Condensed Government-Wide Financial Information

The change in assets, liabilities, and net position from the previous year for the government-wide financial statements were significant.

Current assets increased significantly because the amounts due from other governmental units increased by \$347,510. This increase resulted because accounting services of \$174,000, provided to other school districts in the area, were not collected before year end. The District also had an additional \$165,579 due from the State to help fund the unfunded liability for the retirement system.

The decrease in capital assets net of depreciation indicates that capital assets are depreciating at a faster rate than they are being replaced. This was expected since the District does not make large purchases of fixed assets every year. Capital assets purchased during the year totaled \$33,389 while current year depreciation was \$213,321. Capital assets with a book value of \$27,444 (net of depreciation) were retired/scrapped during the year.

The current liabilities increased significantly from the previous year as unearned revenue of \$256,682 was recorded to reflect property tax revenue on Wind Turbines that was in dispute at year end.

The net decrease in noncurrent liabilities is comprised primarily of the reclassification of long-term debt to short-term debt at year end to reflect the principal on the 2009 bond issue that will be due and payable during the year of \$84,695.

Total net position for governmental activities decreased by 0.1% for the period.

All information presented in Table 1 relates to governmental activities. The District does not have any business-type activities.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Current Assets	\$ 12,008,933	\$ 11,625,735	\$ 383,198
Noncurrent Assets	3,349,232	3,556,608	-207,376
Total Assets	<u>\$ 15,358,165</u>	<u>\$ 15,182,343</u>	<u>\$ 175,822</u>
Current Liabilities	\$ 3,328,374	\$ 3,041,181	\$ 287,193
Noncurrent Liabilities	720,596	820,573	-99,977
Total Liabilities	<u>\$ 4,048,970</u>	<u>\$ 3,861,754</u>	<u>\$ 187,216</u>
Investment in Capital Assets (Net of Related Debt)	\$ 2,608,317	\$ 2,697,920	-\$ 89,603
Restricted	94	94	-0-
Unrestricted	8,700,784	8,622,575	78,209
Total Net Position	<u>\$ 11,309,195</u>	<u>\$ 11,320,589</u>	<u>-\$ 11,394</u>

Total revenues reported on the Statement of Activities varied significantly from the previous year.

Charges for Services decreased due mostly to a reduction in Medicaid revenues of \$266,786.

Operating Grants and Contributions decreased by \$648,875 due primarily to the elimination of Great Start Readiness grant of \$931,600 and was partially offset by a new grant of \$165,579 to help pay the unfunded liability of the pension system. In the previous year, the District received the Great Start Readiness Grant and distributed those funds to the local districts to operate preschool programs in the area. That grant now flows through another intermediate school district.

Property taxes increased by \$647,075 as a result of an increase in the tax base within the district. A large number of wind turbines have been constructed and placed into service resulting in a significant increase in the tax base. The tax rates have not changed.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Table 2
Comparative Summary of Program, General, and Total Revenues
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Charges for Services	\$ 1,480,259	\$ 1,912,140	-\$ 431,881
Operating Grants and Contributions	11,607,090	12,255,965	-648,875
Total Program Revenues	<u>\$ 13,087,349</u>	<u>\$ 14,168,105</u>	<u>-\$ 1,080,756</u>
Property Taxes	\$10,111,667	\$9,464,592	\$ 647,075
State Aid Not Restricted to Specific Purposes	725,849	648,202	77,647
Unrestricted Interest and Investment Earnings	4,240	9,051	-4,811
Restricted Interest and Investment Earnings	475	3,237	-2,762
Other	426,381	394,824	31,557
Total General Revenues	<u>\$11,268,612</u>	<u>\$10,519,906</u>	<u>\$748,706</u>
Total Revenues	<u>\$24,355,961</u>	<u>\$24,688,011</u>	<u>-\$332,050</u>

A number of the components of total expenses varied significantly from the previous year. Some of these components increased significantly while other decreased.

Instruction costs decreased significantly from the previous year due to a substantial decrease in health insurance premiums.

The cost of **Support Services** increased during the year due to an increase in business services \$223,527 provided to other school districts and an increase in pupil transportation \$203,460 for special education students.

Community Services costs increased during the year due to an increase in grant funding of \$221,483 to assist people in finding employment.

Other expenses decreased dramatically due to the elimination of Great Start Readiness grant of \$931,600. In the previous year, the District received the Great Start Readiness Grant and distributed those funds to the local districts to operate preschool programs in the area. Those grant now flow through another intermediate school district.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Instruction	\$5,831,267	\$6,162,492	-\$331,225
Support Services	11,620,454	11,184,611	435,843
Community Services	2,251,352	2,001,634	249,718
Interest and Fees on Long-term Debt	750	1,466	-716
Other	4,450,212	5,209,816	-759,604
Depreciation – Unallocated	213,321	211,207	2,114
Total Expenses	<u>\$24,367,356</u>	<u>\$24,771,226</u>	<u>-\$403,870</u>

III. Analysis of the Overall Financial Position and Results of Operations for Governmental Activities

Governmental Activities

The net position and changes in net position are presented in table 4 below. Since the District does not have any business-type activities, this change is entirely comprised of governmental type activities.

Table 4
Comparative Summary of Net Position and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Net Position – Beginning	\$11,320,589	\$11,403,804	
Increase (Decrease) in Net Position	<u>-11,395</u>	<u>-83,215</u>	71,820
Net Position – Ending	<u>\$11,309,194</u>	<u>\$11,320,589</u>	

The District operates under the philosophy that it should neither increase or decrease fund balance from one year to the next based on the Fund Financial Statements (modified accrual). To increase fund balance is an indication that taxpayer money is not being fully utilized for the education of the children. To decrease fund equity is not sustainable for the long-term and would result in cuts to programs in the future. To operate at break-even allows the full utilization of resources to finance education in a sustainable fashion.

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Management Discussion and Analysis
For the Year Ended June 30, 2013

The increase in Net Position is a function of the difference between the District-Wide Financial Statements and the Fund Financial Statements. The reconciliation between these two methods is presented on page 6. The main difference between the two models is the accounting for depreciation \$213,321 and payment of principal on long-term debt \$117,773. The depreciation of fixed assets is recorded as an expense on the District-Wide Financial Statements and the payment of principal on long-term debt is recorded as an expenditure on the Fund Financial Statements.

Statement of Activities

The Statement of Activities on page 2 is significantly different from the Statement of Revenues, Expenditures, and Changes in Fund Balance. This statement is organized by program listing the expenses in the first column, charges for services in the second column, grants/contributions in the third column, and net expense/revenue in the fourth column. This manner of presentation illustrates the expenses each program generates as well as the corresponding revenues. The net expense/revenue indicates the portion of that program that must be financed with general revenues of the district.

To help the user better understand this statement, the significant program revenues have been identified as follows:

Instruction	State Special Education funding including Section 51, Section 52, and Section 53. Federal special education grants including IDEA flow through, IDEA transition services, IDEA state initiated/competitive, IDEA preschool, and IDEA grants for infants and families.
Support Services	State Special Education funding including Section 51, Section 52, and Section 53. Federal grant for State Administrative Matching Grants for Supplemental Nutrition Assistance Program (SPLASH).
Community Services	Federal grants including Trade Adjustment Assistance, Workforce in Action (Adult, Youth, and Dislocated worker), and Wagner-Peyser.
Interest and fees	State Non-plaintiff Durant Debt Service grant.

All other revenues are considered General Revenues and are listed at the bottom of the Statement of Activities.

Gratiot-Isabella Regional Education Service District
 Management Discussion and Analysis
 For the Year Ended June 30, 2013

IV. Significant Transactions and Changes in Individual Funds

The overall financial position of the individual governmental funds of the District changed significantly from the previous year for the General Fund and the Capital Projects Fund.

The General Fund realized a significant increase in fund equity due to a growth in property tax revenues and the increased amount charged to other funds for services provided.

The Capital Projects Fund incurred a loss as a result of a transfer to the debt service fund to make a payment on the outstanding bond issue.

A comparison of the change in fund balance to the revenues and other financing sources for each of the governmental funds is as follows:

	Revenues and Other Financing <u>Sources</u>	Net Change in Fund Balance <u>From Prior Year</u>	Percent Change in Fund Balance as a Percent of Revenues and Other Financing <u>Sources</u>
General	\$2,615,480	\$ 195,103	7.46%
Special Education	18,805,363	-81,219	-0.43%
Cooperative Education	1,735,113	51,875	2.99%
Funded Projects	2,244,802	-18,613	-0.83%
Capital Projects	475	-84,220	> 100.00%
Debt Service	101,201	-0-	-0-%

General Fund

Expenditures recorded to the General Fund relate to services provided to other funds of the District, as well as, services provided to other school districts. The services provided to other school districts include curriculum/professional development, audiovisual, business services, and data processing. The services provided to other school districts are performed for a fee designed to reimburse a majority of those costs.

Special Education Fund

The function of the Special Education fund is to provide special education services for the District's special education students, as well as, the special education students of nine local school districts, two charter schools, and a number of private schools. These services include instruction, support services (i.e. – speech, social work, psychologist, OT/PT, and nursing), and pupil transportation. Since the revenues generated by the

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Special Education fund exceed the expenditures, a portion of the money generated from property taxes is paid to local and charter school districts based upon their student enrollment to provide additional funds for the operation of their special education programs. The amount paid from those excess funds is somewhat based upon Board Policy with requires the District to maintain a fund equity of 15% to 20% of annual expenditures.

Cooperative Education Fund

The Cooperative Education Fund is used to account for revenues/expenditures related to services provided primarily to other school districts. Some of these services are funded through grants, however, many of them are funded through a fee for the service. There is no intention to make a profit for providing these services but, rather, to simply recover the cost of operating the programs.

Funded Projects Fund

The Funded Projects Fund is used to account for grants received to train workers and help them find jobs. Expenditures are reimbursed from grants and, therefore, generally does not operate at a profit or loss.

Capital Projects

The District has set aside money to fund large construction projects such as roof replacement, parking lot repairs, and to make bond payments. Money will be contributed to this fund from other funds of the District as needed to provide sufficient funds for future projects.

Debt Service Fund

The Debt Service Fund collects money from other funds of the District and receives interest earnings on bank deposits to finance the payment of interest and principal on bonds issued to construct facilities throughout the District.

V. Changes to Budget and Comparison to Actual Results

It is required by State law to adopt the original budget before the beginning of the fiscal year. For the fiscal year ended June 30, 2013 the original budget was adopted on June 21, 2012. The original budget is adopted before the enrollment is known, some grants are awarded, and some staff is hired. Many assumptions are therefore made in constructing the budget. Often there are a number of unforeseen events that occur throughout the year

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2013 are as follows:

General Fund

Changes from Original Budget to Final Budget

- State Sources – State revenues increased due to a grant for \$165,579 that was received to help fund the unfunded retirement liability.
- Other Financing Sources – Operating Transfers In – The original budget was amended to account for additional revenues generated from expanding the business services offered to other school districts.
- Business Services – The original budget was amended to account for additional expenditures resulting from expanding the business services offered to other school districts.

Variances between Final Budget and Actual Amounts

No significant variances.

Special Education Fund

Changes from Original Budget to Final Budget

- Local Sources – The District reduced the budget for property taxes to reflect potential losses from cases that are before the tax tribunal.
- State Sources – The budget was amended to reflect an adjustment made by the State to reimburse extra costs incurred during the prior year.
- Added Needs – The budget was amended to reflect anticipated cost increases for the new budget year that weren't incorporated into the original budget.
- Pupil – The budget was amended to reflect the lower than anticipated cost for pupil services for the year.

Variances between Final Budget and Actual Amounts

- Federal Sources – The District charged less expense to federal programs than originally anticipated to comply with the maintenance of effort requirements of federal programs.
- Added Needs-Costs were less than anticipated.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Cooperative Education Fund

Changes from Original Budget to Final Budget

Local Sources – The budget for local revenues to hold employment workshops was significantly reduced.

State Sources – The amount budgeted for the Great Start Readiness Preschool was significantly reduced because the District contracted with another Intermediate School District to operate this program.

Instruction – Adult/Continuing Education – The budget was significantly reduced for employment workshops.

Other – The budget for payment to other schools from the Great Start Readiness Preschool grant was reduced since those services were contracted through another Intermediate School District.

Variances between Final Budget and Actual Amounts

Federal Sources – Fewer funds were received for the SPLASH grant than anticipated.

Other – Fewer funds were spent related to the SPLASH grant to reflect the reduced funding.

Funded Projects

Changes from Original Budget to Final Budget

Federal Sources – The district received some grant increases for training workers and helping them find jobs.

Community Services - The district received some grant increases for training workers and helping them find jobs.

Variances between Final Budget and Actual Amounts

Federal Sources – Grants received for training workers and helping them find jobs were not fully expended by year end.

Community Services – Grants received for training workers and helping them find jobs were not fully expended by year end.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

VI. Capital Assets and Long-Term Debt Activity during the Year

Capital Assets

A summary of the changes in the District's capital assets is presented on page 15. The significant additions and disposals are described as follows:

Buildings and Additions – New heating/cooling units were installed at the GTEC and Mahoney buildings.

Equipment – Some old equipment was scrapped during the year.

Furniture – Three cubicles were purchased for the business office.

MMNet System – some old equipment was scrapped during the year.

Long-Term Debt

A summary of the changes in long-term debt is presented on page 17. Detailed notes for these long-term debts are on page 16 and 17.

VII. Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations.

The District has received a boost in property tax revenue beginning with the 2012 tax year as 133 wind turbines were constructed at a cost of \$412,775,130 which increased the tax base by \$206,387,565 (50% of the construction costs) and generated additional property tax revenue of approximately \$887,157. The taxable value of the property is in dispute and the owners of the wind farms contend that the depreciation table used for this property should reduce the taxable value to 30% after 7 years. The district has recorded unearned property tax revenue of \$256,682 (the disputed amount) until the courts reach a decision.

Another 28 wind turbines have been constructed and will further boost property tax revenues beginning with the 2013 tax year. These wind turbines cost \$146,940,612 to construct which should increase the tax base by \$73,470,306 (50% of construction costs) and generate additional tax revenue of \$315,812. These turbines would also be subject to the same 7 year depreciation schedule.

The wind turbines will generate a substantial increase in tax revenues that will decline over a relatively short period of time. The District will have to be careful not to become dependent on this revenue since it will decline each year.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2013

The District was not awarded a Federal grant for 2013/2014 that it had received for many years. The loss of the Workforce Investment Act – Youth Activities grant for \$584,551 (in 2012/2013) has already been absorbed by the reduction of staff assigned to those activities. There will be some unemployment costs associated with these layoffs.

The District along with other schools throughout Michigan are faced with significant budget challenges as the State of Michigan continues to struggle to determine an effective method to provide adequate funding for public education. Districts must continue to provide quality educational services to their students while effectively managing their resources within the ever changing financial landscape for Michigan Schools.

**District-Wide
Financial Statements**



Gratiot-Isabella Regional Education Service District
Statement of Net Position - Governmental Activities
June 30, 2013 and 2012

Assets	2013	2012
Current assets		
Cash and investments	\$ 9,298,085	\$ 9,209,654
Accounts receivable, net	49,807	28,954
Prepaid expenses	38,379	28,379
Due from other governmental units	2,622,662	2,358,748
Total current assets	<u>12,008,933</u>	<u>11,625,735</u>
Noncurrent assets		
Land	81,955	81,955
Capital assets, less accumulated depreciation	3,267,277	3,474,653
Total noncurrent assets	<u>3,349,232</u>	<u>3,556,608</u>
Total assets	<u>15,358,165</u>	<u>15,182,343</u>
Liabilities		
Current liabilities		
Accounts payable	1,267,751	1,243,942
Salaries payable	797,557	829,617
Due to other governmental units	165,579	-
Unearned revenues	651,635	446,543
Accrued expenses	361,157	403,306
Current portion of long-term obligations	84,695	117,773
Total current liabilities	<u>3,328,374</u>	<u>3,041,181</u>
Non-current liabilities		
Noncurrent portion of long-term obligations	656,220	740,915
Compensated absences	64,376	79,658
Total non-current liabilities	<u>720,596</u>	<u>820,573</u>
Total liabilities	<u>4,048,970</u>	<u>3,861,754</u>
Net position		
Invested in capital assets, net of related debt	2,608,317	2,697,920
Restricted for:		
Debt service	94	94
Unrestricted	8,700,784	8,622,575
Total net position	<u>\$ 11,309,195</u>	<u>\$ 11,320,589</u>

Gratiot-Isabella Regional Education Service District
Statement of Activities - Governmental Activities
For the Year Ended June 30, 2013 with Comparative Data

Functions / Programs	Expenses	Program Revenues		Governmental Activities Net Revenues (Expense) and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	2013	2012
Governmental activities:					
Instruction	\$ 5,831,267	\$ -	\$ 5,506,734	\$ (324,533)	\$ 557,767
Support services	11,620,454	1,480,259	3,839,073	(6,301,122)	(5,758,630)
Community service	2,251,352	-	2,244,777	(6,575)	3,725
Interest and fees on long-term debt	750	-	16,506	15,756	15,040
Other	4,450,212	-	-	(4,450,212)	(5,209,816)
Depreciation - unallocated	213,321	-	-	(213,321)	(211,207)
Total school district	\$ 24,367,356	\$ 1,480,259	\$ 11,607,090	(11,280,007)	(10,603,121)
General revenues:					
Property taxes				10,111,667	9,464,592
State aid not restricted to specific purposes				725,849	648,202
Unrestricted interest and investment earnings				4,240	9,051
Restricted interest and investment earnings				475	3,237
Other				426,381	394,824
Total general revenues				11,268,612	10,519,906
Change in net position				(11,395)	(83,215)
Net position - beginning				11,320,589	11,403,804
Net position - ending				\$ 11,309,194	\$ 11,320,589

See accompanying notes to financial statements.

Fund Financial Statements



Gratiot-Isabella Regional Education Service District
Balance Sheet - Governmental Funds
June 30, 2013 with Comparative Data

	Major Funds						Total Governmental Funds	
	General	Special Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	2013	2012
Assets								
Cash and investments	\$ 1,551,682	\$ 5,533,373	\$ 1,314,682	\$ 15,114	\$ 883,140	\$ 94	\$ 9,298,085	\$ 9,209,654
Accounts receivable, net	-	8,500	41,307	-	-	-	49,807	28,954
Prepaid expenses	15,000	22,700	679	-	-	-	38,379	28,379
Due from other funds	389,105	-	422,565	-	-	-	811,670	301,516
Due from other governmental units	471,673	1,850,185	107,661	193,143	-	-	2,622,662	2,358,748
Total assets	\$ 2,427,460	\$ 7,414,758	\$ 1,886,894	\$ 208,257	\$ 883,140	\$ 94	\$ 12,820,603	\$ 11,927,251
Liabilities								
Accounts payable	\$ 76,293	\$ 1,079,288	\$ 61,286	\$ 50,884	\$ -	\$ -	\$ 1,267,751	\$ 1,243,942
Salaries payable	6,751	784,245	-	6,561	-	-	797,557	829,617
Due to other funds	-	754,667	-	57,003	-	-	811,670	301,515
Due to other governmental units	165,579	-	-	-	-	-	165,579	-
Unearned Revenues	17,299	472,357	92,498	69,481	-	-	651,635	446,543
Accrued expenses	2,806	343,858	11,132	3,361	-	-	361,157	403,306
Total liabilities	268,728	3,434,415	164,916	187,290	-	-	4,055,349	3,224,923
Fund balance								
Non Spendable	15,000	22,700	679	-	-	-	38,379	28,379
Restricted	-	3,957,643	1,721,299	20,967	290,275	94	5,990,278	6,037,760
Committed:								
Future Bond Payments	-	-	-	-	592,865	-	592,865	677,560
Capital Improvements	100,000	-	-	-	-	-	100,000	-
Future Unemployment Costs	367,000	-	-	-	-	-	367,000	147,800
Undesignated	1,676,732	-	-	-	-	-	1,676,732	1,810,829
Total fund balance	2,158,732	3,980,343	1,721,978	20,967	883,140	94	8,765,254	8,702,328
Total liabilities and fund balance	\$ 2,427,460	\$ 7,414,758	\$ 1,886,894	\$ 208,257	\$ 883,140	\$ 94	\$ 12,820,603	\$ 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 Position of Governmental Activities on the Statement of Net Position
 For the Year Ended June 30, 2013 and 2012

	2013	2012
Total fund balance - governmental funds	\$ 8,765,254	\$ 8,702,328
 Amounts reported for governmental activities in the statement of net position are different because:		
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Add: Cost of capital assets	5,240,980	5,520,545
Deduct: Accumulated depreciation	(1,891,748)	(1,963,937)
 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Compensated absences		
Deduct: Compensated absences payable	(64,376)	(79,658)
 Long-term obligations		
Deduct: Durant bond issue	-	(15,756)
Deduct: MMNET loans payable	-	(17,322)
Deduct: 2009 improvement bonds	(740,915)	(825,610)
 Net position of governmental activities	 \$ 11,309,195	 \$ 11,320,590

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013 with Comparative Data

	Major Funds						2013	2012
	General	Special Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	Total	Total
Revenues								
Local sources	\$ 712,438	\$ 9,858,203	\$ 805,756	\$ 25	\$ 475	\$ -	\$ 11,376,897	\$ 11,058,843
State sources	886,750	5,167,542	369,103	-	-	16,506	6,439,901	6,944,107
Federal sources	-	3,357,667	221,535	2,244,777	-	-	5,823,979	5,920,999
Other sources	203,217	273,951	238,016	-	-	-	715,184	764,062
Total revenues	1,802,405	18,657,363	1,634,410	2,244,802	475	16,506	24,355,961	24,688,011
Expenditures								
Instruction								
Added needs	-	5,774,979	-	-	-	-	5,774,979	5,987,530
Adult continuing education	-	-	71,570	-	-	-	71,570	179,349
Total instruction	-	5,774,979	71,570	-	-	-	5,846,549	6,166,879
Support services								
Pupil	84,915	4,722,643	245,766	-	-	-	5,053,324	4,973,132
Instructional staff	519,147	10,125	122,810	-	-	-	652,082	602,113
General administration	400,149	256,952	-	-	-	-	657,101	694,481
School administration	-	624,009	-	-	-	-	624,009	630,120
Business	816,840	138,880	6,395	-	-	-	962,115	738,588
Operation and maintenance	156,079	213,218	312,745	-	-	-	682,042	628,405
Pupil transportation	-	2,388,483	-	-	-	-	2,388,483	2,185,023
Central	216,993	129,706	277,587	279	-	-	624,565	828,794
Total support services	2,194,123	8,484,016	965,303	279	-	-	11,643,721	11,280,656
Community services	-	227	98,394	2,152,731	-	-	2,251,352	2,001,634
Debt service	-	-	-	-	-	101,201	101,201	101,201
Other	-	3,906,692	543,520	-	-	-	4,450,212	5,209,816
Total expenditures	2,194,123	18,165,914	1,678,787	2,153,010	-	101,201	24,293,035	24,760,186
Revenues over (under) expenditures	(391,718)	491,449	(44,377)	91,792	475	(84,695)	62,926	(72,175)
Other financing sources (uses)								
Operating transfers in	813,075	148,000	100,703	-	-	84,695	1,146,473	1,007,884
Operating transfers (out)	(226,254)	(720,668)	(4,451)	(110,405)	(84,695)	-	(1,146,473)	(1,007,884)
Net change in fund balance	195,103	(81,219)	51,875	(18,613)	(84,220)	-	62,926	(72,175)
Fund balance - beginning	1,963,629	4,061,562	1,670,103	39,580	967,360	94	8,702,328	8,774,503
Fund balance - ending	\$ 2,158,732	\$ 3,980,343	\$ 1,721,978	\$ 20,967	\$ 883,140	\$ 94	\$ 8,765,254	\$ 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, 2013 and 2012

	2013	2012
Net change in fund balances - total governmental funds	\$ 62,926	\$ (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	33,389	79,356
Less: Disposal of fixed assets net of accumulated depreciation	(27,444)	-
Deduct: Depreciation expense	(213,321)	(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	15,282	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	84,695
Add: Principal payment on Durant issue	15,756	15,040
Add: Principal payment on MMNET loan	17,322	16,689
Change in net position of governmental activities	\$ (11,395)	\$ (83,215)

Gratiot-Isabella Regional Education Service District
Statement of Net Position - Fiduciary Fund
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash	\$ 49,427	\$ 46,713
Accounts receivable	<u>-</u>	<u>-</u>
Total assets	49,427	46,713
Liabilities		
Accounts payable	<u>461</u>	<u>146</u>
Net position		
Unrestricted	<u>\$ 48,966</u>	<u>\$ 46,567</u>

See accompanying notes to financial statements.

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 position 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 position 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 position. 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, 2013

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 position 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, 2013

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 \$2,412,334,952 and \$2,276,271,007 for the fiscal years ending June 30, 2013 and 2012 respectively. The District levied 0.2640 mills for general operations and 4.0345 mills for special education services in both years.

	<u>2013</u>	<u>2012</u>
General Operations Tax Levy	\$ 636,856	\$ 588,511
Special Education Tax Levy	9,732,565	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 unearned 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.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2013

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.

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

<u>Assets</u>	<u>Years</u>
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, 2013 and 2012 was \$64,376 and \$79,658 respectively. 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.

Unearned Revenue

Unearned 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 unearned 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 position.

Net Position and Fund Balances

Restricted net position 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 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 Position – Restrictions

Net position in the District-wide financial statements are reported as restricted when constraints placed on net position 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, 2013. 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, 2013

Note 3 - Deposits and Investments

At June 30, 2013, the carrying amount of the District's cash, deposits and investments was as follows:

<u>Cash, Deposits and Investments</u>	<u>2013</u>	<u>2012</u>
Petty Cash	\$600	\$ 500
Checking, Savings & Money Market Accounts	2,102,519	2,345,699
State Investment Pool – MILAF	7,194,966	6,863,455
 Total	 \$9,298,085	 \$ 9,209,654

Deposits with Financial Institutions

At year-end, the carrying amount of the District's deposits was \$1,459,441 and the bank balance was \$2,662,587. 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, 2013, 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, 2013, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool-MICMS	\$ 6,307,559	0.0027	AAAm	87.7%
MILAF External Investment pool-MIMAX	887,536	0.0027	AAAm	12.3%
Total fair value	\$ 7,195,095			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, 2013

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:

<u>Due From</u>	<u>2013</u>	<u>2012</u>
General Fund		
State of Michigan – State Aid	\$ 145,735	\$ 124,163
State of Michigan – Retirement	150,512	-
Other Schools – Account/Finance Services	174,000	-
Other ISD – Professional Development	1,234	-
County – Delinquent Property Taxes	192	-
Total General Fund	<u>\$ 471,673</u>	<u>\$ 124,163</u>
Special Education Fund		
State of Michigan – Flow through	\$ 986,328	\$ 831,335
State of Michigan – State Aid	855,304	786,202
Other Schools	5,614	-
County – Delinquent Property Taxes	2,939	-
Total Special Education Fund	<u>\$ 1,850,185</u>	<u>\$ 1,617,537</u>
Cooperative Education Fund		
MI Primary Care Association	\$ 17,500	\$ 10,942
MI Fitness Foundation	44,028	83,264
State of Michigan – MDCH	1,958	1,853
State of Michigan - Great Start Readiness	11,132	170,712
State of Michigan - Great Parents	9,911	54,216
State of Michigan - Great Start ECIC	22,349	-
Other	783	711
Total Cooperative Education Fund	<u>\$ 107,661</u>	<u>\$ 321,698</u>
Funded Projects Fund		
EightCap – Adult	\$ 47,544	\$ 104,085
EightCap – Youth	46,045	104,459
EightCap – Dislocated Worker	21,507	20,949
EightCap – Wagner Peyser	19,623	31,860
EightCap – NAFTA (Trade)	323	2,204
EightCap – TAAEA	42,654	1,392

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2013

EightCap – TGAAA	3,761	5,013
EightCap – Negotiated OJT	6,440	-
EightCap – ARRA	-	16,744
EightCap – EUC	5,246	8,644
Total Funded Projects Fund	\$ 193,143	\$ 295,350
Total	\$ 2,622,662	\$ 2,358,748

Note 6 - Receivables and Payables

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

	<u>Amounts Due From (To)</u>	
<u>Fund</u>	<u>2013</u>	<u>2012</u>
General	\$ 389,105	\$ 301,515
Special Education	(754,667)	(113,135)
Cooperative Education	422,565	(9,303)
Funded Projects	(57,003)	(179,077)

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	4,547,763	22,838	-	4,570,601
Equipment	402,567	-	203,179	199,388
Furniture	27,975	10,551	-	38,526
MMNet System	184,395	-	109,775	74,620
Technology Equipment	275,890	-	-	275,890
Total Capital Assets	5,520,545	33,389	312,954	5,240,980
Accumulated Depreciation				
Buildings and Improvements	(1,377,010)	(140,737)	-	(1,517,747)
Equipment	(326,163)	(14,712)	(203,179)	(137,696)
Furniture	(5,595)	(3,501)	-	(9,096)
MMNet System	(129,077)	(9,220)	(82,331)	(55,965)
Technology Equipment	(126,092)	(45,151)	-	(171,244)
Total Accumulated Depreciation	(1,963,937)	(213,321)	(285,510)	(1,891,748)
Net Capital Assets	\$ 3,556,608	\$ (179,932)	27,444	\$ 3,349,232

Depreciation for the year ended June 30th totaled \$213,321. 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, 2013

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:

	<u>Accrued Expense</u>	<u>2013</u>	<u>2012</u>
Retirement		\$ 192,407	\$ 201,857
FICA		60,511	63,399
Fringes		93,783	92,792
Unemployment		3,324	44,772
Great Start Readiness Program		11,132	-
Other		-	486
		<hr/>	<hr/>
Total		<u>\$ 361,157</u>	<u>\$ 403,306</u>

Note 11 - Unearned Revenue

Unearned 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 unearned revenues until spent or refunded to the grantor. Gratiot-Isabella RESD incurred the following unearned revenue as of the end of the current fiscal year:

	<u>Unearned Revenue</u>	<u>2013</u>	<u>2012</u>
ECIC and GPGS Grants		\$ 92,330	\$ 94,533
TGAAA, Trade TAA, and TAAEA Grants		69,481	-
State of Michigan		140,912	259,781
Property Taxes – Tax Tribunal		348,744	92,061
Other		168	168
		<hr/>	<hr/>
Total		<u>\$ 651,635</u>	<u>\$ 446,543</u>

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. These bonds were paid off during the current fiscal year.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2013

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. These bonds were paid off during the current fiscal year.

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, 2013 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Comp. Absences	\$ 79,658	-	\$ 15,282	\$ 64,376	\$ -	\$ 79,658
MMNET Loan	17,322	-	17,322	-	-	-
Durant Bonds	15,756	-	15,756	-	-	-
2009 Improvement Bonds	825,610	-	84,695	740,915	84,695	656,220
Total	\$ 938,346	-	\$ 133,055	\$ 805,291	\$ 84,695	\$ 720,596

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2013 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:

	<u>2013</u>	<u>2012</u>
The general fund made the following transfers to -		
Special education fund for general expenditures.	\$ 148,000	\$ 147,512
Cooperative education fund for general expenditures	78,254	79,307
The cooperative education fund made the following transfers to -		
General fund for general expenditures.	4,451	26,061
The funded projects fund made the following transfers to -		
General fund for general expenditures.	110,405	73,922
The special education fund made the following transfers to -		
Cooperative education fund for general expenditures.	22,449	27,898
General fund for general expenditures.	698,219	568,489
The capital projects fund made the following transfers to -		
Debt fund for general expenditures.	84,695	84,695
Total	<u>\$ 1,146,473</u>	<u>\$ 1,007,884</u>

Note 14 - Employee Retirement System

Plan Description - The District participates in the statewide Michigan Public School Employees' Retirement System (System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>. The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget.

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB member or Pension Plus hybrid plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members a voluntary election regarding their pension if they first became a member before July 1, 2010 and earned service credit in the 12 months ending September 3, 2012. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1

Members voluntarily elected to increase their contributions to the pension fund and retain the 1.5% pension factor in their pension formula. Basic Plan members were to contribute 4% and MIP (Fixed, Graded and Plus) members were to contribute 7%. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

Option 2

Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3

Members voluntarily elected maintain their current level of contribution to the pension fund and therefore not increase their contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4

Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution (DC) plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Non-electing Members

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

New Members

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect to opt out of the Pension Plus hybrid plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect to opt out of the Pension Plus hybrid plan, their participation in the DC plan will be retroactive to their date of hire.

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 and December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2013

their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity 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. For the period October 1 through September 30, the District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% up to 1% of the employee's contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS were equal to the required contribution for those years.

The District's contributions to MPSERS were \$2,114,846 for the year ending June 30, 2013, \$2,047,756 for the year ending June 30, 2012 and \$1,825,644 for the year ending June 30, 2011.

Included in the amounts paid above, the District received \$165,579 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

Other Postemployment Benefits

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLE

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new format to certain financial statements to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, when applicable.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items previously reported as assets and liabilities as outflows of resources and inflows of resources.

These statements impact the format and reporting of amounts in the statement of net position and the balance sheet at the government-wide level and the fund level, respectively.

NOTE 18 - UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

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, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 707,016	\$ 710,436	\$ 712,438	\$ 2,002
State sources	680,500	885,838	886,750	912
Federal sources	5,000	-	-	-
Other sources	146,000	158,000	203,217	45,217
Total revenues	1,538,516	1,754,274	1,802,405	48,131
Expenditures				
Support services				
Pupil	73,968	83,022	84,915	(1,893)
Instructional staff	516,176	539,926	519,147	20,779
General administration	430,444	413,660	400,149	13,511
Business	691,215	852,675	816,840	35,835
Operation and maintenance	187,765	165,987	156,079	9,908
Central	258,725	238,398	216,993	21,405
Total support services	2,158,293	2,293,668	2,194,123	99,545
Other			-	-
Total expenditures	2,158,293	2,293,668	2,194,123	99,545
Revenues over (under) expenditures	(619,777)	(539,394)	(391,718)	147,676
Other financing sources (uses)				
Operating transfers in	596,915	830,400	813,075	(17,325)
Operating transfers (out)	(259,500)	(224,500)	(226,254)	(1,754)
Net change in fund balance	(282,362)	66,506	195,103	128,597
Fund balance - beginning	2,058,887	1,963,628	1,963,629	(1)
Fund balance - ending	\$ 1,776,525	\$ 2,030,134	\$ 2,158,732	\$ 128,596

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Special Education Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 9,901,200	\$ 9,794,583	\$ 9,858,203	\$ 63,620
State sources	4,178,000	5,134,398	5,167,542	33,144
Federal sources	3,647,470	3,603,234	3,357,667	(245,567)
Other sources	300,000	275,000	273,951	(1,049)
Total revenues	<u>18,026,670</u>	<u>18,807,215</u>	<u>18,657,363</u>	<u>(149,852)</u>
Expenditures				
Instruction				
Added needs	5,400,795	6,255,557	5,774,979	480,578
Total instruction	<u>5,400,795</u>	<u>6,255,557</u>	<u>5,774,979</u>	<u>480,578</u>
Support services				
Pupil	5,140,232	4,678,797	4,722,643	(43,846)
Instructional staff	6,500	13,500	10,125	3,375
General administration	303,411	267,797	256,952	10,845
School administration	650,215	652,120	624,009	28,111
Business	133,800	134,800	138,880	(4,080)
Operation and maintenance	212,370	224,225	213,218	11,007
Pupil transportation	2,345,000	2,420,000	2,388,483	31,517
Central	184,099	142,643	129,706	12,937
Total support services	<u>8,975,627</u>	<u>8,533,882</u>	<u>8,484,016</u>	<u>49,866</u>
Community services	-	-	227	(227)
Other	3,355,053	3,803,123	3,906,692	(103,569)
Total expenditures	<u>17,731,475</u>	<u>18,592,562</u>	<u>18,165,914</u>	<u>426,648</u>
Revenues over (under) expenditures	295,195	214,653	491,449	276,796
Other financing sources (uses)				
Operating transfers in	180,000	148,000	148,000	-
Operating transfers (out)	(787,462)	(805,488)	(720,668)	84,820
Net change in fund balance	(312,267)	(442,835)	(81,219)	361,616
Fund balance - beginning	<u>3,597,838</u>	<u>4,061,560</u>	<u>4,061,562</u>	<u>2</u>
Fund balance - ending	<u>\$ 3,285,571</u>	<u>\$ 3,618,725</u>	<u>\$ 3,980,343</u>	<u>\$ 361,618</u>

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Cooperative Education Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 878,312	\$ 723,627	\$ 805,756	\$ 82,129
State sources	1,103,546	450,786	369,103	(81,683)
Federal sources	335,000	373,245	221,535	(151,710)
Other sources	227,330	245,000	238,016	(6,984)
Total revenues	2,544,188	1,792,658	1,634,410	(158,248)
Expenditures				
Instruction				
Adult / continuing education	193,562	78,423	71,570	6,853
Total instruction	193,562	78,423	71,570	6,853
Support services				
Pupil	293,980	303,317	245,766	
Instructional staff	193,344	127,600	122,810	4,790
Business	10,000	10,000	6,395	3,605
Operation and maintenance	282,496	329,279	312,745	16,534
Central	344,698	293,041	277,587	15,454
Total support services	1,124,518	1,063,237	965,303	40,383
Community services	42,632	125,510	98,394	27,116
Other	1,345,500	740,695	543,520	197,175
Total expenditures	2,706,212	2,007,865	1,678,787	271,527
Revenues over (under) expenditures	(162,024)	(215,207)	(44,377)	113,279
Other financing sources (uses)				
Operating transfers in	90,500	103,027	100,703	(2,324)
Operating transfers (out)	(81,566)	(85,471)	(4,451)	81,020
Net change in fund balance	(153,090)	(197,651)	51,875	191,975
Fund balance - beginning	1,600,834	1,670,103	1,670,103	-
Fund balance - ending	\$ 1,447,744	\$ 1,472,452	\$ 1,721,978	\$ 191,975

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Funded Projects Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ -	\$ -	\$ 25	\$ 25
Federal sources	1,954,386	2,472,277	2,244,777	(227,500)
Total revenues	<u>1,954,386</u>	<u>2,472,277</u>	<u>2,244,802</u>	<u>(227,475)</u>
Expenditures				
Central	-	-	279	(279)
Community services	1,892,195	2,472,277	2,152,731	319,546
Total expenditures	<u>1,892,195</u>	<u>2,472,277</u>	<u>2,153,010</u>	<u>319,267</u>
Revenues over (under) expenditures	62,191	-	91,792	91,792
Other financing sources (uses)				
Operating transfers (out)	(62,191)	(97,672)	(110,405)	(12,733)
Net change in fund balance	-	(97,672)	(18,613)	79,059
Fund balance - beginning	<u>41,130</u>	<u>39,580</u>	<u>39,580</u>	<u>-</u>
Fund balance - ending	<u>\$ 41,130</u>	<u>\$ (58,092)</u>	<u>\$ 20,967</u>	<u>\$ 79,059</u>

Other Supplemental Information



Gratiot-Isabella Regional Education Service District
General Fund
Statement of Revenues
For the Years Ended June 30, 2013 and 2012

	2013	2012
Local sources		
Property taxes	\$ 621,876	\$ 587,734
Interest	1,879	5,151
Other local revenues	88,683	85,263
Total local sources	<u>712,438</u>	<u>678,148</u>
State sources		
Unrestricted		
Section 81	682,591	680,861
Renaissance zone	903	1,818
Best practices	21,659	-
Restricted		
Section 147c - retirement	165,579	-
Technology infrastructure	2,018	-
Vocational education administration	14,000	-
Total state sources	<u>886,750</u>	<u>682,679</u>
Federal sources		
Restricted		
Career and technical education	-	7,196
Total federal sources	<u>-</u>	<u>7,196</u>
Other financing sources		
Other sources	203,217	155,856
Transfers from other funds	813,075	668,472
Total other financing sources	<u>1,016,292</u>	<u>824,328</u>
Total general fund revenues and other financing sources	<u>\$ 2,615,480</u>	<u>\$ 2,192,351</u>

Gratiot-Isabella Regional Education Service District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Support services		
Pupil		
Attendance		
Salaries	\$ 47,156	\$ 43,092
Employee benefits	27,533	20,523
Purchased services	10,226	9,424
Total pupil	<u>84,915</u>	<u>73,039</u>
Instructional staff		
Curriculum coordinator		
Salaries	72,828	72,828
Employee benefits	53,451	42,253
Purchased services	13,052	14,868
Supplies and materials	374	-
Other	2,604	1,790
Total curriculum coordinator	<u>142,309</u>	<u>131,739</u>
Audiovisual		
Salaries	195,956	189,796
Employee benefits	152,857	119,385
Purchased services	22,207	21,584
Supplies and materials	295	1,494
Other	5,523	3,093
Total audiovisual	<u>376,838</u>	<u>335,352</u>
Total instructional staff	<u>519,147</u>	<u>467,091</u>
General administration		
Board of education		
Employee benefits	277	288
Purchased services	59,934	70,605
Total board of education	<u>60,211</u>	<u>70,893</u>
Executive administration		
Salaries	188,473	188,473
Employee benefits	122,026	94,222
Purchased services	13,207	12,294
Supplies and materials	1,142	1,074
Other	15,090	12,759
Total executive administration	<u>339,938</u>	<u>308,822</u>
Total general administration	<u>400,149</u>	<u>379,715</u>

Gratiot-Isabella Regional Education Service District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2013 and 2012

	2013	2012
Support services (continued)		
Business		
Fiscal services		
Salaries	\$ 402,558	\$ 315,273
Employee benefits	282,743	189,229
Purchased services	8,878	6,367
Other	1,851	-
Total fiscal services	<u>696,030</u>	<u>510,869</u>
Internal services		
Salaries	41,896	43,828
Employee benefits	28,680	27,671
Purchased services	6,115	6,721
Supplies and materials	32,088	36,814
Capital outlay	-	978
Total internal services	<u>108,779</u>	<u>116,012</u>
Other business services		
Purchased services	9,770	5,474
Other	2,261	1,168
Total other business services	<u>12,031</u>	<u>6,642</u>
Total business	<u>816,840</u>	<u>633,523</u>
Operations and maintenance		
Salaries	44,040	43,992
Employee benefits	36,188	33,441
Purchased services	30,975	33,097
Supplies and materials	44,876	44,564
Total operations and maintenance	<u>156,079</u>	<u>155,094</u>
Central		
Planning, research and development and evaluation		
Salaries	22,007	37,288
Employee benefits	6,468	18,267
Purchased services	312	1,714
Payments of other schools	11,690	-
Total planning, research and development and evaluation	<u>40,477</u>	<u>57,269</u>
Staff and personnel services		
Purchased services	93	49
Total staff and personnel services	<u>93</u>	<u>49</u>

Gratiot-Isabella Regional Education Service District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2013 and 2012

	2013	2012
Support services (continued)		
Central (continued)		
Data processing		
Salaries	\$ 12,794	\$ 28,109
Employee benefits	11,112	13,103
Purchased services	117,894	118,440
Supplies and materials	-	3,206
Other	3,351	885
Total data processing	145,151	163,743
Pupil accounting		
Payments to other schools	31,272	63,439
Total pupil accounting	31,272	63,439
Total central	216,993	284,500
Total support services	2,194,123	1,992,962
Other financing uses		
Operating transfers out	226,254	226,819
Total other financing uses	226,254	226,819
Total expenditures	\$ 2,420,377	\$ 2,219,781

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Revenues
For the Year Ended June 30, 2013 and 2012

	2013	2012
Local sources		
Property taxes	\$ 9,489,791	\$ 8,876,858
Interest	1,750	2,976
Charges for services	361,172	627,958
Rentals	-	613
Other local revenues	5,490	8,568
	9,858,203	9,516,973
State sources		
Restricted		
Membership - section 52	1,399,690	1,268,284
Renaissance Zone	14,143	28,478
Special education - section 51	2,955,414	3,038,966
Special education - section 53	86,589	136,744
Special education - section 56	711,706	619,724
	5,167,542	5,092,196
Total state sources	5,167,542	5,092,196
Federal sources		
Restricted		
P.L. 94-142 flowthrough	2,961,954	3,271,453
P.L. 94-142 preschool incentive	130,025	132,517
P.L. 94-142 state initiated projects - EOSD	50,000	50,000
Transition service	58,000	58,000
Infant / toddler formula	157,688	133,821
	3,357,667	3,645,791
Total federal sources	3,357,667	3,645,791
Incoming transfers and other transactions		
Payments from other school districts	273,951	338,378
	273,951	338,378
Total incoming transfers and other transactions	273,951	338,378
Other financing sources		
Transfers from other funds	148,000	147,512
	148,000	147,512
Total other financing sources	148,000	147,512
Total revenues	\$ 18,805,363	\$ 18,740,850

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2013 and 2012

	2013	2012
Instruction		
Added needs		
Special education		
Salaries	\$ 3,073,903	\$ 3,109,637
Employee benefits	1,959,499	2,134,221
Purchased services	134,006	114,606
Supplies and materials	20,996	18,699
Capital outlay	5,439	-
Payments to other schools for services	581,136	610,367
Total special education	5,774,979	5,987,530
Total added needs	5,774,979	5,987,530
Support services		
Pupil services		
Health services		
Salaries	720,934	704,336
Employee benefits	375,435	383,033
Purchased services	93,173	121,993
Supplies and materials	4,931	7,325
Total health services	1,194,473	1,216,687
Psychological services		
Salaries	364,772	348,471
Employee benefits	177,409	180,452
Purchased services	9,513	12,909
Supplies and materials	17,336	8,874
Total psychological services	569,030	550,706
Speech pathology services		
Salaries	1,031,367	1,006,095
Employee benefits	518,764	518,196
Purchased services	29,031	37,885
Supplies and materials	5,402	4,104
Payments to other schools for services	23,978	-
Total speech pathology services	1,608,542	1,566,280
Social worker services		
Salaries	356,566	312,574
Employee benefits	199,742	185,466
Purchased services	15,205	25,983
Supplies and materials	4,282	383
Total social worker services	575,795	524,406

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Support services (continued)		
Pupil services		
Teacher consultant services		
Salaries	\$ 203,253	\$ 199,343
Employee benefits	104,318	105,127
Purchased services	74,588	66,688
Supplies and materials	<u>1,491</u>	<u>1,299</u>
Total teacher consultant services	<u>383,650</u>	<u>372,457</u>
Other pupil services		
Salaries	251,281	237,475
Employee benefits	118,755	121,727
Purchased services	18,358	18,244
Supplies and materials	<u>2,759</u>	<u>5,045</u>
Total other pupil services	<u>391,153</u>	<u>382,491</u>
Total pupil services	<u>4,722,643</u>	<u>4,613,027</u>
Instructional staff		
Improvement of instruction		
Purchased services	6,347	8,332
Supplies and materials	<u>3,718</u>	<u>1,964</u>
Total improvement of instruction	<u>10,065</u>	<u>10,296</u>
Educational media		
Supplies and materials	<u>60</u>	<u>40</u>
Total educational media	<u>60</u>	<u>40</u>
Total instructional staff	<u>10,125</u>	<u>10,336</u>
General administration		
Board of education		
Purchased services	15,836	35,357
Other	<u>1,762</u>	<u>-</u>
Total board of education	<u>17,598</u>	<u>35,357</u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2013 and 2012

	2013	2012
Support services (continued)		
General administration (continued)		
Executive administration		
Salaries	\$ 147,213	\$ 147,213
Employee benefits	88,231	128,172
Purchased services	3,170	3,484
Other	740	540
Total executive administration	<u>239,354</u>	<u>279,409</u>
Total general administration	<u>256,952</u>	<u>314,766</u>
School administration		
Supervision and direction of instructional staff		
Salaries	360,287	361,517
Employee benefits	223,253	239,810
Purchased services	18,819	14,019
Supplies and materials	21,650	14,774
Total school administration	<u>624,009</u>	<u>630,120</u>
Business services		
Internal services		
Purchased services	7,683	8,131
Supplies and materials	19,948	14,309
Total internal services	<u>27,631</u>	<u>22,440</u>
Other business services		
Purchased services	77,967	48,909
Other	33,282	26,937
Total other business services	<u>111,249</u>	<u>75,846</u>
Total business services	<u>138,880</u>	<u>98,286</u>
Operations and maintenance		
Salaries	25,179	34,058
Employee benefits	15,978	21,769
Purchased services	138,019	133,589
Supplies and materials	28,956	24,802
Other	180	-
Payments to other schools	4,906	309
Total operations and maintenance	<u>213,218</u>	<u>214,527</u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Support services (continued)		
Pupil transportation		
Contracted services	\$ 2,388,483	\$ 2,185,023
Central		
Planning, research development and evaluation		
Salaries	35,084	35,214
Employee benefits	<u>12,230</u>	<u>12,101</u>
Total planning, research development and evaluation	<u>47,314</u>	<u>47,315</u>
Staff and personnel services		
Contracted services	<u>1,411</u>	<u>1,276</u>
Total staff and personnel services	<u>1,411</u>	<u>1,276</u>
Data processing		
Salaries	26,005	26,006
Employee benefits	13,645	20,034
Purchased services	<u>41,331</u>	<u>82,967</u>
Total data processing	<u>80,981</u>	<u>129,007</u>
Total central	<u>129,706</u>	<u>177,598</u>
Total support services	<u>8,484,016</u>	<u>8,243,683</u>
Community services		
Parent training		
Purchased services	<u>227</u>	<u>239</u>
Payments to other governmental agencies		
Payments to other schools	3,757,271	3,722,888
Payments to other governmental entities	<u>149,421</u>	<u>127,947</u>
Total payments to other governmental agencies	<u>3,906,692</u>	<u>3,850,835</u>
Other financing uses		
Operating transfers out	<u>720,668</u>	<u>596,387</u>
Total other financing uses	<u>720,668</u>	<u>596,387</u>
Total expenditures	<u>\$ 18,886,582</u>	<u>\$ 18,678,674</u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Revenues
 For the Years Ended June 30, 2013 and 2012

	2013	2012
Local sources		
Interest	\$ 586	\$ 865
Charges for services	384,386	501,130
Rentals	53,067	57,326
Donations	69,059	39,061
Other local revenues	298,658	262,044
Total local sources	805,756	860,426
State sources		
Restricted		
Great parents great start	87,687	64,204
Great start ecic collagerative	142,563	112,345
Great start competitive	61,200	
Great start readiness		931,600
Michigan model health	77,653	44,577
Total state sources	369,103	1,152,726
Federal sources		
Unrestricted		
Medicaid	69,795	63,798
Restricted		
Nutrition assistance	150,957	198,143
Other	783	712
Federal sources	221,535	262,653
Incoming transfers and other transactions		
Payments from other schools	238,016	269,828
Total incoming transfers and other transactions	238,016	269,828
Other financing sources		
Operating transfers in	100,703	107,205
Total financing sources	100,703	107,205
Total Revenues	\$ 1,735,113	\$ 2,652,838

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Years Ended June 30, 2013 and 2012

	2013	2012
Instruction		
High School/Adult Occupational Training		
Salaries	\$ 33,502	\$ 65,551
Employee benefits	17,734	43,254
Purchased services	12,317	43,559
Supplies and materials	8,017	26,985
Total instruction	<u>71,570</u>	<u>179,349</u>
Support services		
Pupil services		
Other pupil services		
Salaries	97,229	93,106
Employee benefits	55,602	67,229
Purchased services	28,007	23,906
Supplies and materials	38,553	84,453
Other	26,375	18,372
Total other pupil services	<u>245,766</u>	<u>287,066</u>
Total pupil services	<u>245,766</u>	<u>287,066</u>
Instructional staff		
Improvement of instruction		
Purchased services	22,132	19,333
Supplies and materials	19,643	28,883
Other	57,658	51,988
Total improvement of instruction	<u>99,433</u>	<u>100,204</u>
Educational media		
Salaries	12,490	12,425
Employee benefits	8,372	9,648
Purchased services	1,505	1,504
Payments to other schools	1,010	905
Total educational media	<u>23,377</u>	<u>24,482</u>
Total instructional staff	<u>122,810</u>	<u>124,686</u>
Business services		
Other business services		
Purchased services	6,395	6,779
Total other business services	<u>6,395</u>	<u>6,779</u>
Total business services	<u>6,395</u>	<u>6,779</u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Years Ended June 30, 2013 and 2012

	2013	2012
Support services (continued)		
Operations and maintenance		
Salaries	\$ 19,359	\$ 28,640
Employee benefits	10,256	16,318
Purchased services	63,834	57,581
Supplies and materials	145,143	91,671
Capital outlay	69,247	64,265
Payments to other schools	4,906	309
Total operations and maintenance	<u>312,745</u>	<u>258,784</u>
Central		
Staff and personnel services		
Purchased services	14,873	11,672
Supplies and materials	-	8,872
Other	456	570
Total staff and personnel services	<u>15,329</u>	<u>21,114</u>
Data processing		
Salaries	107,665	116,498
Employee benefits	64,159	78,111
Purchased services	8,740	10,019
Supplies and materials	38,193	67,957
Other	50	50
Total data processing	<u>218,807</u>	<u>272,635</u>
Pupil activities		
Purchased services	43,451	72,414
Other	-	340
Total pupil activities	<u>43,451</u>	<u>72,754</u>
Total central	<u>277,587</u>	<u>366,503</u>
Total support services	<u>965,303</u>	<u>1,043,818</u>
Community services		
Community recreation		
Purchased services	36,767	37,279
Supplies and materials	803	620
Capital outlay	5,481	29,460
Other	8,351	2,788
Total community recreation	<u>51,402</u>	<u>70,147</u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Community services (continued)		
Other community services		
Purchased services	\$ 36,853	\$ -
Supplies and materials	10,139	-
Total other community services	<u>46,992</u>	<u>0</u>
Total community services	<u>98,394</u>	<u>70,147</u>
Payments to other governmental agencies		
Payments to other schools	299,566	1,127,086
Payments to other governmental entities	<u>243,954</u>	<u>231,895</u>
Total payments to other governmental agencies	<u>543,520</u>	<u>1,358,981</u>
Other financing uses		
Operating transfers out	<u>4,451</u>	<u>26,061</u>
Total other financing uses	<u>4,451</u>	<u>26,061</u>
Total expenditures	<u>\$ 1,683,238</u>	<u>\$ 2,678,356</u>

Gratiot-Isabella Regional Education Service District
 Funded Projects Fund
 Statement of Revenues and Expenditures
 For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Local sources		
Interest	\$ 25	\$ 59
Total local sources	<u>25</u>	<u>59</u>
Federal sources		
Restricted		
Workforce in action - adult	655,190	607,895
Workforce in action - dislocated worker	245,615	281,029
Workforce in action - youth activities	584,551	668,816
Employment services/Wagner-Peyser	268,338	211,278
Trade adjustment assistance	<u>491,083</u>	<u>236,341</u>
Total federal sources	<u>2,244,777</u>	<u>2,005,359</u>
Total revenues	<u>2,244,802</u>	<u>2,005,418</u>
Expenditures		
Central		
Staff and personnel services		
Contracted services	<u>279</u>	<u>193</u>
Total central services	<u>279</u>	<u>193</u>
Community services		
Employment programs		
Salaries	640,374	725,864
Employee benefits	337,914	384,174
Purchased services	122,463	125,080
Supplies and materials	11,079	41,346
Other	<u>1,040,901</u>	<u>654,784</u>
Total community services	<u>2,152,731</u>	<u>1,931,248</u>
Other financing uses		
Operating transfers out	<u>110,405</u>	<u>73,922</u>
Total other financing uses	<u>110,405</u>	<u>73,922</u>
Total expenditures	<u>\$ 2,263,415</u>	<u>\$ 2,005,363</u>

Gratiot-Isabella Regional Education Service District
Capital Projects Fund
Statement of Revenues and Expenditures
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Local sources		
Interest	<u>\$ 475</u>	<u>\$ 3,237</u>
Total revenues	<u>475</u>	<u>3,237</u>
Expenditures		
Outgoing transfers and other transactions		
Debt service	<u>84,695</u>	<u>84,695</u>
Total expenditures	<u><u>\$ 84,695</u></u>	<u><u>\$ 84,695</u></u>

Gratiot-Isabella Regional Education Service District
Schedule of Long-Term Debt
For the Year Ended June 30, 2013

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2009 School Improvement Bonds - \$995,000					
Due October 1,					
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>\$ 740,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 740,915</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.



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

To the Board of Education
Ithaca, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella RESD (the District), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
October 14, 2013