

**Gratiot-Isabella Regional  
Education Service District**

***Financial Statements  
With Supplemental Information  
June 30, 2015***



**RPC**  
Roslund Prestage & Company  
CERTIFIED PUBLIC ACCOUNTANTS

Gratiot-Isabella Regional Education Service District  
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June 30, 2015

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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 year ended June 30, 2015, 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, 2015, and the respective changes in financial position, for the year 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. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. As a result of the implementation of this Statement, the financial statements have been changed to reflect the new presentation required by GASB Statement No. 68. 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, budgetary comparison and the prospective 10-year trend 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 21, 2015, 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,



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

October 21, 2015

**Management's Discussion  
and Analysis**



Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
For the Year Ended June 30, 2015

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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, 2015. 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, 2015

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**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 decreased significantly because the cash and investments decreased by \$2,027,131. This decrease was due primarily to the vocational education fund. In fiscal year 2014/2015 the district levied a new vocational education millage but didn't pay out reimbursements for vocational education tuition, transportation, and startup costs for new programs until after the end of the fiscal year totaling \$2,050,727 causing an increase in cash balances. In 2015/2016, the district paid all but \$484,216 of the reimbursements by year end causing a decrease in cash balances of approximately \$1,500,000.

The increase in capital assets net of depreciation indicates that capital assets have been replaced at a faster rate than they are depreciating. This was expected since the District made renovations to buildings, purchased furniture/equipment, and acquired two building sites for a building trades program during the year. Capital assets purchased during the year totaled \$635,720 while current year depreciation was \$220,524. Capital assets with a book value of \$14,125 (net of depreciation) were retired/scrapped during the year.

Deferred outflows increased during the year by \$1,556,120 due to the implementation of GASB 68. Prior to GASB 68, retirement contributions were expensed when paid.

The current liabilities decreased significantly from the prior primarily due to the reduction in accounts payable for the vocational education fund. In 2013/2014 the reimbursement of vocational education tuition, transportation, and startup costs were not paid until after year end totaling \$2,050,727. In 2014/2015, the District reimbursed all but \$484,216 of those costs resulting in a reduction of accounts payable of approximately \$1,500,000.

The increase in noncurrent liabilities is comprised primarily of the net pension liability of \$22,134,885 that was recorded due to the implementation of GASB 68. Prior to the current year the net pension liability was not reflected in the financial statements of the District.

Deferred inflows increase during the year by \$1,630,225 due to the implementation of GASB 68. Prior to the implementation of GASB 68, this type of pension activity was not reflected in the financial statements.

The total net position for governmental activities decreased by 168.9% for the period or \$21,876,093. Of this reduction, \$22,367,420 was due to the implementation of GASB 68 to reflect the pension activity in the financial statements.

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
For the Year Ended June 30, 2015

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

Table 1  
Comparative Summary of Assets, Liabilities, and Net Position  
At June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Current Assets	\$ 12,583,481	\$ 14,836,635	\$ -2,253,154
Noncurrent Assets	3,856,916	3,455,844	401,072
Total Assets	<u>\$ 16,440,397</u>	<u>\$ 18,292,479</u>	<u>\$ -1,852,082</u>
Deferred Outflows of Resources	<u>\$ 1,556,120</u>	<u>\$ -0-</u>	<u>\$ 1,556,120</u>
Current Liabilities	\$ 2,616,280	\$ 4,719,497	\$ -2,103,217
Noncurrent Liabilities	22,688,386	635,263	22,053,123
Total Liabilities	<u>\$ 25,304,666</u>	<u>\$ 5,354,760</u>	<u>\$ 19,949,906</u>
Deferred Inflows of Resources	<u>\$ 1,630,225</u>	<u>\$ -0-</u>	<u>\$ 1,630,225</u>
Investment in Capital Assets (Net of Related Debt)	\$ 3,285,391	\$ 2,799,624	\$ 485,767
Restricted	6,924,562	7,173,733	-249,171
Unrestricted	-19,148,327	2,964,362	-22,112,689
Total Net Position	<u>\$ -8,938,374</u>	<u>\$ 12,937,719</u>	<u>\$ -21,876,093</u>

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

**Charges for Services** increased significantly for two reasons. First, the District has expanded business and technology services to more districts and has increased charges for some of those services resulting in increased service fees of \$147,001. Second, the District increased its billing for Medicaid Fee for Service by \$695,583.

**Operating Grants and Contributions** decreased by \$721,936 due to the reduction of IDEA funds to support special education programs in the current year. In fiscal year 2013/2014, the District utilized \$479,988 of carryover funds from the preceding year causing those revenues to spike for one year.

**Property taxes** decreased by \$616,002 due to a reduction in the taxable valuation of property within the District.



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Management Discussion and Analysis  
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**State Aid Not Restricted to Specific Purposes** decreased by \$116,198 primarily due to a reduction in Section 56 revenue. Section 56 revenue is designed to equalize the property tax base per student for intermediate school districts for special education funding. As the property tax base increases for the District, the Section 56 revenue decreases.

Table 2  
Comparative Summary of Program, General, and Total Revenues  
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Charges for Services	\$ 3,418,249	\$ 2,402,621	\$ 1,015,628
Operating Grants and Contributions	<u>11,194,068</u>	<u>11,836,992</u>	<u>-642,924</u>
Total Program Revenues	<u>\$ 14,612,317</u>	<u>\$ 14,239,613</u>	<u>\$ 372,704</u>
Property Taxes	\$13,600,166	\$13,976,363	\$ -376,197
State Aid Not Restricted to Specific Purposes	366,817	519,876	-153,059
Unrestricted Interest and Investment Earnings	11,644	3,272	8,372
Restricted Interest and Investment Earnings	415	342	73
Other	<u>184,453</u>	<u>199,613</u>	<u>-15,160</u>
Total General Revenues	<u>\$14,163,495</u>	<u>\$14,699,466</u>	<u>\$ -535,971</u>
Total Revenues	<u>\$28,775,812</u>	<u>\$28,939,079</u>	<u>\$ -163,267</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 increased significantly mostly due to an expansion of some of the special education programs and increased retirement costs.

**Support Services** increased during the year due to additional staff hired in the maintenance department, business department, technology department and vocational education administration. Costs also increased significantly due to an increase in retirement, pupil transportation, and maintenance projects.

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Management Discussion and Analysis  
For the Year Ended June 30, 2015

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**Community Services** costs decreased during the year primarily due to a reduction in the District's Workforce in Action programs of \$160,709.

Table 3  
Comparative Summary of Program Expenses by Function and Total Expenses  
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Instruction	\$6,651,334	\$6,182,944	\$468,390
Support Services	13,619,481	12,716,151	903,330
Community Services	1,566,470	1,825,915	-259,445
Other	6,226,676	6,367,493	140,817
Depreciation – Unallocated	220,524	218,052	2,472
Total Expenses	<u>\$28,284,485</u>	<u>\$27,310,555</u>	<u>\$973,930</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Net Position–Beginning	\$12,937,719	\$11,309,195	
Amount of Restatement	<u>-22,367,420</u>	<u>-0-</u>	
Net Position–Beginning Restated	-9,429,701	11,309,195	
Increase (Decrease) in Net Position	<u>491,327</u>	<u>1,628,524</u>	\$-1,137,197
Net Position – Ending	<u><u>\$-8,938,374</u></u>	<u><u>\$12,937,719</u></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

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
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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.

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 \$-220,524, the capitalization of fixed assets purchased during the year \$635,720, the payment of principal on long-term debt \$84,695, and the effects of GASB 68 of \$158,430. The depreciation of fixed assets is recorded as an expense on the District-Wide Financial Statements, the purchase of fixed assets is recorded as an expense on the Fund 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 and Dislocated worker), and Wagner-Peyser.

Gratiot-Isabella Regional Education Service District  
 Management Discussion and Analysis  
 For the Year Ended June 30, 2015

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

**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 Cooperative Education Fund and the Capital Projects Fund.

The Cooperative Education Fund expended fund equity to cover a portion of the costs of some large maintenance projects. Fund had been set aside in prior years for this purpose.

The Capital Projects Fund had a significant increase in fund equity because funds that were set aside for future projects were not expended during the year.

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	\$4,059,955	\$ 48,324	1.19%
Special Education	20,099,805	-218,774	-1.09%
Vocational Education	2,584,371	-57,046	-2.21%
Cooperative Education	2,314,289	-126,354	-5.46%
Funded Projects	1,410,539	-42	-0.00%
Capital Projects	300,415	215,720	71.81%
Debt Service	84,695	-0-	0.00%

**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, technology services, and data processing. The services provided to other school districts are performed for a fee designed to reimburse a majority of those costs.

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
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**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 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 which 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 do not operate at a profit or loss.

**Capital Projects**

The District has set aside money to fund large construction projects such as roof replacement, HVAC 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 renovate the Winding Brook Conference Center.

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
For the Year Ended June 30, 2015

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**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, 2015 the original budget was adopted on June 30, 2014. 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 that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2015 are as follows:

**General Fund**

*Changes from Original Budget to Final Budget*

- State Sources – The budget was amended to reflect the increase in state funding for the unfunded retirement liability \$164,233.
- Other Financing Sources – During the year, the District increased the amount technology services to other school districts which generated an additional \$161,506 in revenues.
- Operations and Maintenance - The original budget was amended for an additional custodian and to increase the amounts budgeted for contracted services.
- Operating Transfers In – The original budget was increased by \$46,920 to reflect the actual indirect costs for grants in the Cooperative Education and the Funded Projects funds.
- Operating Transfers Out – The original budget was amended to reflect increased transfers out to the Special Education fund of \$300,000 and the Cooperative Education fund of \$61,125 to cover shortfalls in funding.

*Variances between Final Budget and Actual Amounts*

No individually significant variances.

**Special Education Fund**

*Changes from Original Budget to Final Budget*

- Local Sources – The District decreased the budget for property taxes by \$376,512 to reflect the actual amount of taxes levied which wasn't known when the original budget was created. The District increased the amount budgeted for Medicaid revenues by \$577,369

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Management Discussion and Analysis  
For the Year Ended June 30, 2015

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- State Sources – The budget was amended to reflect a reduction of the special education costs reimbursed for the prior year of \$157,132 and to reduce the Section 56 funding for the current year by 116,198.
- Federal Sources – The budget was amended to reflect a reduced utilization of federal funds to pay for special education costs of \$95,861.
- Added Needs – The budget was amended to account for additional staff hired for an expansion of the special education programs.
- Business – The budget was amended to eliminate a contingency of \$165,000 that was made for the cost of an expansion of some special education programs under Added Needs once those programs were actually added to the budget.
- Operating Transfers In – When it was determined that the Special Education fund was going to operate at a deficit for the year, the budget was amended to reflect an additional contribution from the General Fund of \$300,000 to help balance the budget.

*Variiances between Final Budget and Actual Amounts*

- Local Sources – The District received more revenues than budgeted including Medicaid funds of \$139,969 and property taxes of \$38,207.
- Federal Sources – The District did utilized \$368,112 less in federal Flowthrough (IDEA) funds that expected.
- Pupil – The District underspent the budget for iterant staff for the year mostly due to the large turnover of staff and the extended period of time that it took to replace these staff.

**Vocational Education Fund**

*Changes from Original Budget to Final Budget*

- Local Sources – The District decreased the budget for property taxes by \$69,249 to reflect the actual amount of taxes levied which wasn't known when the original budget was created.
- Other – Startup expenses were budgeted in the prior year for some new Career and Technical Education programs that weren't expended until the current year. Therefore the budget was amended to carryover the unexpended funds of \$396,664.
- Site Acquisition – The budget was amended to reflect the unexpected purchase of two lots for the building trades program for \$58,000.

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*Variances between Final Budget and Actual Amounts*

Other – The district reimburses other school districts for the operation of the Career and Technical Education programs. It is difficult to budget these amounts accurately since they are operated by other districts. Actual expenditures were \$320,180 less than anticipated.

**Cooperative Education Fund**

*Changes from Original Budget to Final Budget*

Federal Sources – The district included in the original budget an amount of \$223,540 for a Commodities grant which it was not awarded.

Operations and Maintenance – The budget was increased by \$375,000 during the year to pay for some major technology purchases and building renovations.

Other – The district included in the original budget an amount of \$223,540 for a Commodities grant which it was not awarded.

Operating Transfers In – The budget for transfers from the general fund was increased by \$57,500 to cover losses in some programs. Also, the budget was increased by \$50,000 to record an additional transfer in of Medicaid revenues.

*Variances between Final Budget and Actual Amounts*

Local Sources – Medicaid revenues were \$200,000 more than the amount budgeted.

Operating Transfers In – The District transferred \$100,000 less funds into Cooperative Education fund because of the unexpected increase in Medicaid Revenues.

**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.



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Management Discussion and Analysis  
For the Year Ended June 30, 2015

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*Variations 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.

**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 16. The significant additions and disposals are described as follows:

Land – The District purchased two lots to be used in the building trades program to construct two houses in the future.

Buildings and Additions – The Mahoney building had renovations including two restrooms, new exterior doors, and the replacement of the west parking lot. Disposals include improvements made to the old parking lot that was replaced.

Equipment – Purchased a new vehicle and three new copy machines. Disposals include old equipment that was taken out of service and disposed.

Furniture – An operable wall was purchased for the Mahoney building.

Technology Equipment – Additional phones were purchased for the Westgate building. Disposals include old laptops, servers, and switches that have been taken out of service and disposed.

Construction in Process – Improvements made to the Mahoney building including the HVAC, roof, and east parking lot. Disposals include improvements made to the west parking lot at the Mahoney building that were completed 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 also on page 17.

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
For the Year Ended June 30, 2015

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

In the current year, the District had \$28,802,734 in revenues of which \$13,600,166 or 47% was from property taxes. Approximately 10% of the property tax revenue is derived from wind turbines located within the District. The taxable valuation of these turbines declines very quickly in the first 10 years due to depreciation. This decline in value has generally offset other increases in the property values keeping tax revenues flat in recent years. We expect this trend to continue until the wind turbines are fully depreciated in 2023.

The District has expended a great deal of effort in the last couple years to make sure all Medicaid claims are properly billed. This has caused an increase in Medicaid revenues in the past two years which is expected to continue for at least one more year.

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, 2015

**Assets**

Current assets	
Cash and investments	\$ 10,311,692
Accounts receivable, net	1,756
Prepaid expenses	38,700
Due from other governmental units	2,231,333
Total current assets	12,583,481
Noncurrent assets	
Land	139,955
Capital assets, less accumulated depreciation	3,716,961
Total noncurrent assets	3,856,916
Total assets	16,440,397

**Deferred outflows of resources**

Retirement contributions	1,556,120
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**Liabilities**

Current liabilities	
Accounts payable	575,527
Salaries payable	821,323
Unearned revenues	617,690
Accrued expenses	505,280
Current portion of compensated absences	11,765
Current portion of long-term obligations	84,695
Total current liabilities	2,616,280
Non-current liabilities	
Noncurrent portion of long-term obligations	486,830
Noncurrent portion of compensated absences	66,671
Net pension liability	22,134,885
Total non-current liabilities	22,688,386
Total liabilities	25,304,666

**Deferred inflows of resources**

Retirement plan activity, net of amortization	1,630,225
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**Net position**

Net Investment in capital assets	3,285,391
Restricted for:	
Special Education	4,041,660
Vocational Education	438,332
Cooperative Education	1,695,375
Funded Projects	6,119
Capital Projects	742,982
Debt service	94
Unrestricted	(19,148,327)
Total net position	\$ (8,938,374)

Gratiot-Isabella Regional Education Service District  
Statement of Activities - Governmental Activities  
For the Year Ended June 30, 2015

Functions / Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net Revenues (Expense) and Changes in Net Position
<b>Governmental activities:</b>				
Instruction	\$ 6,651,334	\$ -	\$ 4,750,159	\$ (1,901,175)
Support services	13,619,481	3,418,249	5,020,112	(5,181,120)
Community service	1,566,470	-	1,423,797	(142,673)
Other	6,226,676	-	-	(6,226,676)
Depreciation - unallocated	220,524	-	-	(220,524)
Total school district	\$ 28,284,485	\$ 3,418,249	\$ 11,194,068	(13,672,168)
<b>General revenues:</b>				
Property taxes				13,600,166
State aid not restricted to specific purposes				366,817
Unrestricted interest and investment earnings				11,644
Restricted interest and investment earnings				415
Other				184,453
Total general revenues				14,163,495
<b>Change in net position</b>				491,327
<b>Net position - beginning as restated for net pension liability</b>				(9,429,701)
<b>Net position - ending</b>				\$ (8,938,374)

The notes are an integral part of these financial statements.

## Fund Financial Statements



Gratiot-Isabella Regional Education Service District  
Balance Sheet - Governmental Funds  
June 30, 2015

	Major Funds						Total Governmental Funds	
	General	Special Education	Vocational Education	Cooperative Education	Funded Projects	Capital Projects		Debt Service
<b>Assets</b>								
Cash and investments	\$ 1,999,734	\$ 4,399,966	\$ 916,926	\$ 1,618,267	\$ 62,198	\$ 1,314,507	\$ 94	\$ 10,311,692
Accounts receivable, net	-	-	-	1,756	-	-	-	1,756
Prepaid expenses	16,000	22,700	-	-	-	-	-	38,700
Due from other funds	295,895	-	266	-	-	-	-	296,161
Due from other governmental units	302,024	1,600,882	7,386	171,449	149,592	-	-	2,231,333
<b>Total assets</b>	<b>\$ 2,613,653</b>	<b>\$ 6,023,548</b>	<b>\$ 924,578</b>	<b>\$ 1,791,472</b>	<b>\$ 211,790</b>	<b>\$ 1,314,507</b>	<b>\$ 94</b>	<b>\$ 12,879,642</b>
<b>Liabilities</b>								
Accounts payable	\$ 16,259	\$ 57,515	\$ 484,216	\$ 15,499	\$ 2,038	\$ -	\$ -	\$ 575,527
Salaries payable	8,012	794,847	-	2,553	15,911	-	-	821,323
Due to other funds	-	110,441	-	3,541	182,179	-	-	296,161
Unearned Revenues	15,765	531,108	-	70,817	-	-	-	617,690
Accrued expenses	28,743	465,277	2,030	3,687	5,543	-	-	505,280
<b>Total liabilities</b>	<b>68,779</b>	<b>1,959,188</b>	<b>486,246</b>	<b>96,097</b>	<b>205,671</b>	<b>-</b>	<b>-</b>	<b>2,815,981</b>
<b>Fund balance</b>								
Non Spendable	16,000	22,700	-	-	-	-	-	38,700
Restricted	-	4,041,660	438,332	1,695,375	6,119	742,982	94	6,924,562
Committed:								
Future Bond Payments	-	-	-	-	-	571,525	-	571,525
Undesignated	2,528,874	-	-	-	-	-	-	2,528,874
<b>Total fund balance</b>	<b>2,544,874</b>	<b>4,064,360</b>	<b>438,332</b>	<b>1,695,375</b>	<b>6,119</b>	<b>1,314,507</b>	<b>94</b>	<b>10,063,661</b>
<b>Total liabilities and fund balance</b>	<b>\$ 2,613,653</b>	<b>\$ 6,023,548</b>	<b>\$ 924,578</b>	<b>\$ 1,791,472</b>	<b>\$ 211,790</b>	<b>\$ 1,314,507</b>	<b>\$ 94</b>	<b>\$ 12,879,642</b>

The notes are an integral part of these 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, 2015

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Total fund balance - governmental funds \$ 10,063,661

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	5,989,650
Deduct: Accumulated depreciation	(2,132,734)

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	(78,436)
Add: Deferred outflow - retirement contributions	1,556,120
Deduct: Net pension liability	(22,134,885)
Deduct: Deferred inflow - pension plan activity (net of amortization)	(1,630,225)

Long-term obligations

Deduct: 2009 improvement bonds	(571,525)
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Net position of governmental activities	\$ (8,938,374)
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Gratiot-Isabella Regional Education Service District  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2015

	Major Funds							Total
	General	Special Education	Vocational Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	
<b>Revenues</b>								
Local sources	\$ 1,008,671	\$ 11,433,812	\$ 2,569,621	\$ 1,034,037	\$ 26	\$ 415	\$ -	\$ 16,046,582
Non-edu. entity or political subdivision	-	-	-	8,784	-	-	-	8,784
State sources	1,484,667	4,627,226	14,750	321,566	-	-	-	6,448,209
Federal sources	5,687	3,282,270	-	349,171	1,410,513	-	-	5,047,641
Other sources	697,743	318,497	-	208,356	-	-	-	1,224,596
<b>Total revenues</b>	<b>3,196,768</b>	<b>19,661,805</b>	<b>2,584,371</b>	<b>1,921,914</b>	<b>1,410,539</b>	<b>415</b>	<b>-</b>	<b>28,775,812</b>
<b>Expenditures</b>								
Instruction								
Added needs	-	6,694,019	-	-	-	-	-	6,694,019
<b>Total instruction</b>	<b>-</b>	<b>6,694,019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,694,019</b>
Support services								
Pupil	86,348	5,033,742	-	340,595	-	-	-	5,460,685
Instructional staff	586,652	8,690	183,252	231,447	-	-	-	1,010,041
General administration	424,336	304,685	4,006	-	-	-	-	733,027
School administration	-	713,211	-	-	-	-	-	713,211
Business	975,321	198,398	4,442	6,600	63	-	-	1,184,824
Operation and maintenance	291,965	233,933	-	863,424	-	-	-	1,389,322
Pupil transportation	-	2,604,624	-	-	-	-	-	2,604,624
Central	766,634	125,632	-	289,277	367	-	-	1,181,910
<b>Total support services</b>	<b>3,131,256</b>	<b>9,222,915</b>	<b>191,700</b>	<b>1,731,343</b>	<b>430</b>	<b>-</b>	<b>-</b>	<b>14,277,644</b>
Community services	-	-	-	201,245	1,371,705	-	-	1,572,950
Debt service	-	-	-	-	-	-	84,695	84,695
Other	-	3,600,121	2,391,717	234,838	-	-	-	6,226,676
Site acquisition	-	-	58,000	-	-	-	-	58,000
<b>Total expenditures</b>	<b>3,131,256</b>	<b>19,517,055</b>	<b>2,641,417</b>	<b>2,167,426</b>	<b>1,372,135</b>	<b>-</b>	<b>84,695</b>	<b>28,913,984</b>
<b>Revenues over (under) expenditures</b>	<b>65,512</b>	<b>144,750</b>	<b>(57,046)</b>	<b>(245,512)</b>	<b>38,404</b>	<b>415</b>	<b>(84,695)</b>	<b>(138,172)</b>
<b>Other financing sources (uses)</b>								
Operating transfers in	863,187	438,000	-	392,375	-	300,000	84,695	2,078,257
Operating transfers (out)	(880,375)	(801,524)	-	(273,217)	(38,446)	(84,695)	-	(2,078,257)
<b>Net change in fund balance</b>	<b>48,324</b>	<b>(218,774)</b>	<b>(57,046)</b>	<b>(126,354)</b>	<b>(42)</b>	<b>215,720</b>	<b>-</b>	<b>(138,172)</b>
<b>Fund balance - beginning</b>	<b>2,496,550</b>	<b>4,283,134</b>	<b>495,378</b>	<b>1,821,729</b>	<b>6,161</b>	<b>1,098,787</b>	<b>94</b>	<b>10,201,833</b>
<b>Fund balance - ending</b>	<b>\$ 2,544,874</b>	<b>\$ 4,064,360</b>	<b>\$ 438,332</b>	<b>\$ 1,695,375</b>	<b>\$ 6,119</b>	<b>\$ 1,314,507</b>	<b>\$ 94</b>	<b>\$ 10,063,661</b>

The notes are an integral part of these 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, 2015

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Net change in fund balances - total governmental funds \$ (138,172)

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

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

Add: Capital outlay	635,720
Deduct: Disposal of fixed assets net of accumulated depreciation	(14,124)
Deduct: Depreciation expense	(220,524)

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.

Add: Decrease in accrual for compensated absences	(14,698)
Add: Change in deferred outflow - retirement contributions	390,717
Add: Decrease in net pension liability	1,397,938
Deduct: Change in deferred inflow - pension plan activity (net of amort.)	(1,630,225)

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).

Add: Principal payment on 2009 improvement bonds	84,695
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Change in net position of governmental activities \$ 491,327

Gratiot-Isabella Regional Education Service District  
Statement of Net Position - Fiduciary Fund  
June 30, 2015

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<b>Assets</b>	
Cash	\$ 34,100
	<hr/>
Total assets	34,100
	<hr/>
<b>Liabilities</b>	
Accounts payable	-
Due to student activities	34,100
	<hr/>
Total Liabilities	34,100
	<hr/>
<b>Net Position</b>	<b>\$ -</b>
	<hr/> <hr/>

**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 inter fund 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, 2015

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**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, Vocational Education 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.

### **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 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.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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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 \$2,571,868,571 for the fiscal year ending June 30, 2015. The District levied 0.2640 mills for general operations, 4.0345 mills for special education services, and 1.0000 mills for vocational education. The taxpayers approved a 10 year millage for vocational education which began in the 2013/2014 fiscal year and ends with the 2022/2023fiscal year.

	<b><u>2015</u></b>
General Operations Tax Levy	\$ 679,832
Special Education Tax Levy	10,389,320
Vocational Education Tax Levy	2,575,120

**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.

**Capital Assets**

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

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

The District does not have infrastructure-type assets.

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

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

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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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 - 25
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, 2015 was \$78,436. 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.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has one item that qualifies for reporting in this category which relates to the retirement contributions paid to MPSERS after MPSERS' year-end of September 30<sup>th</sup>.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents a acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category which relates to the changes in MPSERS plan activity, net of amortization.

**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.



Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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### 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.

### **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.

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- 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<sup>th</sup>. 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.

**Note 3 - Deposits and Investments**

At June 30<sup>th</sup>, the carrying amount of the District's cash, deposits and investments were as follows:

<u>Cash, Deposits and Investments</u>	<u>2015</u>
Petty Cash	\$600
Checking, Savings & Money Market Accounts	4,533,360
State Investment Pool – MILAF	5,777,732
Total	<u>\$10,311,692</u>

**Deposits with Financial Institutions**

At year-end, the carrying amount of the District's deposits was \$4,533,360 and the bank balance was \$2,927,670. Of the bank balance, \$383,805 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, 2015, 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, 2015, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool-MICMS	\$ 6,948,897	0.1269	AAAm	86.0%
MILAF External Investment pool-MIMAX	1,128,960	0.1269	AAAm	14.0%
Total fair value	\$ 8,077,858			100.0%
Portfolio weighted average maturity				
1 day maturity equals 0.0027, one year equals 1.00				

At year end, the carrying amounts of the investments were \$5,777,732 and the balance per the MILAF was \$8,077,858. The difference was due to several outstanding transfers made to District bank accounts at year end.

*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-

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term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

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

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

Custodial credit risk – deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. 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 30<sup>th</sup> 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 30<sup>th</sup>, consist of the following:

<u>Due From</u>	<u>2015</u>
<b>General Fund</b>	
State of Michigan – State Aid	\$ 129,967
State of Michigan – Retirement	133,240
State of Michigan – Renaissance Zone	218
Other Schools – Technology Services	5,803
Other ISD – Truant Officer	19,149
Other ISD – Pupil Audit Services	3,401
Other ISD – Data Service Collaboration	9,000
County – Delinquent Property Taxes	1,246
<b>Total General Fund</b>	<u>\$ 302,024</u>
<b>Special Education Fund</b>	
State of Michigan – Flow through	\$ 681,377
State of Michigan – State Aid	836,145
State of Michigan – Preschool	33,921
State of Michigan - Transition	5,782
State of Michigan - EOSD	4,818
State of Michigan – Early On	13,578
Other Schools	6,214
County – Delinquent Property Taxes	19,047
<b>Total Special Education Fund</b>	<u>\$ 1,600,882</u>

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**Vocational Education Fund**

State of Michigan – Vocational Ed. Administration	\$ 2,683
County – Delinquent Property Taxes	4,703
<b>Total Vocational Education Fund</b>	<b>\$ 7,386</b>

**Cooperative Education Fund**

MI Primary Care Association	\$ 26,250
MI Fitness Foundation	91,684
State of Michigan – Early Childhood Block Grant	36,377
State of Michigan – First Robotics	819
State of Michigan – Title II A	528
Central Area MI Works	7,542
Other	8,249

<b>Total Cooperative Education Fund</b>	<b>\$ 171,449</b>
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**Funded Projects Fund**

EightCap – Adult	\$ 60,589
EightCap – Dislocated Worker	37,662
EightCap – Wagner Peyser	32,830
EightCap – NAFTA (Trade)	2,332
EightCap – TAAEA	9,463
EightCap – Negotiated OJT	6,716

<b>Total Funded Projects Fund</b>	<b>\$ 149,592</b>
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<b>Total</b>	<b>\$ 2,231,333</b>
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**Note 6 - Receivables and Payables**

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

<u>Due to Fund</u>	<u>Amount</u>	<u>Due From Fund</u>	<u>Amount</u>
General	\$ 295,895	Special Education	\$ 110,441
Vocational Education	266	Cooperative Education	3,541
		Funded Projects	182,179
<b>Total</b>	<b>\$ 296,161</b>	<b>Total</b>	<b>\$ 296,161</b>

**Note 7 - Prepaid Expenses**

Prepaid expenses as of June 30<sup>th</sup> represent expenditures paid prior to year-end that are allocable to future periods for the following:

<u>Prepaid Expenses</u>	<u>2015</u>
Prefunded Dental/Vision Claims	\$ 16,000
Prefunded Substitute Teacher Costs	22,700
<b>Total</b>	<b>\$ 38,700</b>

**Note 8 - Capital Assets**

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

<b>Capital Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 81,955	\$ 58,000	\$ -	\$ 139,955
Buildings and Improvements	4,715,432	386,916	(6,694)	5,095,654
Equipment	170,823	56,694	(25,794)	201,723
Furniture	51,966	11,565	-	63,531
MMNet System	74,620	-	-	74,620
Technology Equipment	385,434	11,989	(93,812)	303,611
Construction in Process	14,125	110,556	(14,125)	110,556
<b>Total Capital Assets</b>	<b>5,494,355</b>	<b>635,720</b>	<b>(140,425)</b>	<b>5,989,650</b>
<b>Accumulated Depreciation</b>				
Buildings and Improvements	(1,619,261)	(156,666)	6,694	(1,769,233)
Equipment	(121,881)	(17,587)	25,794	(113,674)
Furniture	(13,957)	(5,505)	-	(19,462)
MMNet System	(59,696)	(3,731)	-	(63,427)
Technology Equipment	(223,716)	(37,035)	93,813	(166,938)
<b>Total Accumulated Depreciation</b>	<b>(2,038,511)</b>	<b>(220,524)</b>	<b>126,301</b>	<b>(2,132,734)</b>
<b>Net Capital Assets</b>	<b>\$ 3,455,844</b>	<b>\$ 415,196</b>	<b>\$(14,124)</b>	<b>\$ 3,856,916</b>

Depreciation for the year ended June 30<sup>th</sup> totaled \$220,524. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**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 30<sup>th</sup>.

**Note 10 - Accrued Expenses**

Accrued expenses as of June 30<sup>th</sup> are as follows:

<u>Accrued Expense</u>	<u>2015</u>
Retirement	\$ 343,192
FICA	62,831
Fringes	99,045
Unemployment	212
Total	<u>\$ 505,280</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.

Each year the District receives Medicaid revenues throughout the year which are based on estimates. In the

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following fiscal year, there is a settlement with the State of Michigan based on actual claims submitted. The District has made a provision of \$285,000 for this settlement based upon past experience.

There is a tax tribunal case related to wind turbines in which the owners of the wind turbines believe that the assessed value of the wind turbines should decline at a faster rate than the property valuation multipliers yield. This case has been ongoing for several years. The District has made a provision of \$261,873 which is management's best estimate for the possible settlement of this claim.

A breakdown of unearned revenues at June 30<sup>th</sup> are as follows:

<u>Unearned Revenue</u>	<u>2015</u>
32p Block Grant	\$ 67,756
Michigan Primary Care Association Grant	2,567
State of Michigan – Medicaid	285,000
Property Taxes – Tax Tribunal	261,873
Parent Coalition Backpack Grant	494
Total	\$ 617,690

**Note 12 - Long-term Debt**

**2009 School Improvement Bonds**

On October 1, 2009, the District issued bonds totaling \$995,000 for the purpose of renovating the Winding Brook Conference Center. The bonds were issued under the American Recovery and Reinvestment Act – Qualified School Construction Bonds (ARRA-QSCB) program and bear a bond interest rate of 0%. The bonds mature on October 1, 2019. Rather than pay a lump sum payment of \$995,000 when the bonds mature, the District has entered an agreement with the purchaser of the bonds where the District will make ten annual set-aside payments of \$84,695.19 which will be invested in a set-aside account earning 3.5% interest. These ten set-aside payments along with the projected interest earnings of \$148,048.07 will be used to retire the debt when it matures.

Changes in general long-term debt during the year ended June 30, 2015 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Comp. Absences	\$ 63,738	\$ 14,698	\$ -	\$ 78,436	\$ -	\$ 78,436
2009 Improvement Bonds	656,220	-	84,695	571,525	84,695	486,830
<b>Total</b>	<b>\$ 719,958</b>	<b>\$ 14,698</b>	<b>\$ 84,695</b>	<b>\$ 649,961</b>	<b>\$ 84,695</b>	<b>\$ 565,266</b>

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2015 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>2015</u>
<b>The general fund made the following transfers to -</b>	
Special education to reimburse FICA and fund shortfall in funding	\$ 438,000
Cooperative education fund to fund shortfall in several programs	142,375
Capital projects for facility improvements	300,000
<b>The cooperative education fund made the following transfers to -</b>	
General fund for indirect costs	23,217
Cooperative education fund to transfer money to other programs	250,000

**The funded projects fund made the following transfers to -**

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General fund for indirect costs	65,368
<b>The special education fund made the following transfers to -</b>	
General fund for indirect costs	801,524
<b>The capital projects fund made the following transfers to -</b>	
Debt fund to make payment on bond issue.	84,695
<b>Total</b>	<b>\$ 2,105,179</b>

**Note 14 - Employee Retirement System**

**Organization**

The Michigan Public School Employees' Retirement System (MPERS) 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 board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members.

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 System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

**Membership**

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to but not yet receiving benefits:	
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	432,268

**Benefits Provided**

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 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.

### **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, through 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. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate 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 their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. 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.

## **Summary of Significant Accounting Policies**

### **Basis of Accounting and Presentation**

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

### **Reserves**



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Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion for the plan as a whole.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million for the plan as a whole.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion for the plan as a whole.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion for the plan as a whole.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million for the plan as a whole.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion for the plan as a whole.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0 for the plan as a whole.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion for the plan as a whole.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion for the plan as a whole.

### **Reporting Entity**

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

### **Benefit Protection**

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "antialienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

### **Fair Value of Investments**

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

### **Investment Income**

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

### **Costs of Administering the System**

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

### **Property and Equipment**

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

### **Related Party Transactions**

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Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

**Cash** - At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

**Contributions and Funding Status**

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded(overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

<b>Benefit Structure</b>	<b>Pension Contribution Rates</b>	
	<b>Member</b>	<b>Employer</b>
Basic	0.0 - 4.0 %	18.34 - 19.61 %
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements for the plan as a whole. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014 for the plan as a whole.

**Net Pension Liability**

**Measurement of the MPSERS Net Pension Liability**

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

**MPSERS (Plan) Net Pension Liability**

As of September 30, 2014

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>\$ 43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

**MPSERS (Plan) Net Pension Liability**

As of October 1, 2013

Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	<u>\$ 39,427,686,072</u>
Net Pension Liability	<u>\$ 23,431,813,922</u>

**Proportionate Share of Reporting Unit's Net Pension Liability**

At September 30, 2014, the Reporting Unit reported a liability of \$22,134,885 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was 0.10049 percent.

**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8 %
Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
Total	100.0	

\*Long term rate of return does not include 2.5% inflation

**Rate of Return**

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount Rate**

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

As required by GASB Statement No. 68, the following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<b>1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%</b>	<b>Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%</b>	<b>1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%</b>
\$29,182,918	\$22,134,885	\$16,196,812

**Timing of the Valuation**

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

**Actuarial Valuations and Assumptions**

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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**Summary of Actuarial Assumptions**

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12

Mortality:

RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

**Notes:**

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 MPERS Comprehensive Annual Financial Report.

**Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$1,402,271. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Deferred Inflows of Resources**

Differences between expected and actual experience	\$ -
Changes of assumptions	816,730
Net difference between projected and actual earnings on pension plan investments	(2,447,020)
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	<u>65</u>
Total Deferred Inflow – retirement plan activity – net of amortization	<u><u>\$(1,630,225)</u></u>

**Deferred Outflows of Resources**

Reporting Unit retirement contributions subsequent to the measurement date	<u><u>\$1,556,120*</u></u>
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\*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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**Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)**

Plan Year Ended June 30	Amount:
2015	\$(399,363)
2016	(399,363)
2017	(399,363)
2018	(432,136)

**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 Regional Education Service District  
Notes to the Financial Statements  
June 30, 2015

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

**NOTE 17 – RELATED PARTIES**

Gratiot-Isabella Regional Education Service District (GIRESD) is serving as the fiscal agent of MMNet. There is no agreement between GIRESD and MMNet for these services. GIRESD has been given control and authority over the day-to-day engineering, acquisition, installation, and management of MMNet. Expenses paid to MMNet included \$7,259 to maintain the fiber network and the CIPA filter. Revenues received from MMNET include \$169,418 for technology staff to maintain and operate the fiber network, servers, and filter, and \$44,000 for business services, insurance, and use of facilities.

**NOTE 18 – RESTATEMENT OF NET POSITION**

As of June 30, 2015, the beginning net position was restated as follows:

Net position on June 30, 2014 as previously reported	\$ 12,937,719
Amount of restatement	<u>(22,367,420)</u>
Net position on June 30, 2014 as restated	<u>\$ 9,429,701</u>

The beginning net position was restated to reflect the implementation of GASB 68. Net position was restated by \$(22,367,420) which is the cumulative difference as of June 30, 2014 between the net pension liability of \$(23,532,823) and the deferred outflow – retirement contributions of \$1,165,403. Note 14 – Employee Retirement System contains additional information regarding the implementation of GASB 68.



**Required Supplemental Information**

Budgetary Comparison Schedules

And

Michigan Public School Employees Retirement System  
Prospective 10-year trend information



Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 946,060	\$ 993,635	\$ 1,008,671	\$ 15,036
State sources	1,289,289	1,464,673	1,484,667	19,994
Federal sources	-	5,687	5,687	-
Other sources	520,000	681,506	697,743	16,237
<b>Total revenues</b>	<u>2,755,349</u>	<u>3,145,501</u>	<u>3,196,768</u>	<u>51,267</u>
<b>Expenditures</b>				
Support services				
Pupil	90,500	78,777	86,348	(7,571)
Instructional staff	564,407	649,073	586,652	62,421
General administration	471,613	473,461	424,336	49,125
Business	974,651	1,012,631	975,321	37,310
Operation and maintenance	191,560	307,422	291,965	15,457
Central	752,439	767,134	766,634	500
<b>Total expenditures</b>	<u>3,045,170</u>	<u>3,288,498</u>	<u>3,131,256</u>	<u>157,242</u>
<b>Revenues over (under) expenditures</b>	(289,821)	(142,997)	65,512	208,509
<b>Other financing sources (uses)</b>				
Operating transfers in	897,000	942,062	863,187	(78,875)
Operating transfers (out)	(532,500)	(883,625)	(880,375)	3,250
<b>Net change in fund balance</b>	74,679	(84,560)	48,324	132,884
<b>Fund balance - beginning</b>	<u>2,496,550</u>	<u>2,496,550</u>	<u>2,496,550</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 2,571,229</u>	<u>\$ 2,411,990</u>	<u>\$ 2,544,874</u>	<u>\$ 132,884</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Special Education Fund  
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 11,053,900	\$ 11,256,192	\$ 11,433,812	\$ 177,620
State sources	4,902,293	4,623,662	4,627,226	3,564
Federal sources	3,763,555	3,667,694	3,282,270	(385,424)
Other sources	230,974	351,058	318,497	(32,561)
<b>Total revenues</b>	<u>19,950,722</u>	<u>19,898,606</u>	<u>19,661,805</u>	<u>(236,801)</u>
<b>Expenditures</b>				
Instruction				
Added needs	6,368,124	6,674,737	6,694,019	(19,282)
<b>Total instruction</b>	<u>6,368,124</u>	<u>6,674,737</u>	<u>6,694,019</u>	<u>(19,282)</u>
Support services				
Pupil	5,141,510	5,261,972	5,033,742	228,230
Instructional staff	12,507	10,107	8,690	1,417
General administration	342,824	301,243	304,685	(3,442)
School administration	677,132	708,407	713,211	(4,804)
Business	410,363	236,838	198,398	38,440
Operation and maintenance	235,158	252,575	233,933	18,642
Pupil transportation	2,529,000	2,613,200	2,604,624	8,576
Central	150,924	126,713	125,632	1,081
<b>Total support services</b>	<u>9,499,418</u>	<u>9,511,055</u>	<u>9,222,915</u>	<u>288,140</u>
Other	3,720,005	3,610,510	3,600,121	10,389
<b>Total expenditures</b>	<u>19,587,547</u>	<u>19,796,302</u>	<u>19,517,055</u>	<u>279,247</u>
<b>Revenues over (under) expenditures</b>	363,175	102,304	144,750	42,446
<b>Other financing sources (uses)</b>				
Operating transfers in	148,000	438,000	438,000	-
Operating transfers (out)	(855,354)	(838,142)	(801,524)	36,618
<b>Net change in fund balance</b>	(344,179)	(297,838)	(218,774)	79,064
<b>Fund balance - beginning</b>	<u>4,283,134</u>	<u>4,283,134</u>	<u>4,283,134</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 3,938,955</u>	<u>\$ 3,985,296</u>	<u>\$ 4,064,360</u>	<u>\$ 79,064</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Vocational Education Fund  
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 2,630,200	\$ 2,560,951	\$ 2,569,621	\$ 8,670
State sources		18,383	14,750	(3,633)
<b>Total revenues</b>	<u>2,630,200</u>	<u>2,579,334</u>	<u>2,584,371</u>	<u>5,037</u>
<b>Expenditures</b>				
Support services				
Instructional Staff	180,116	187,617	183,252	4,365
General administration	5,000	2,000	4,006	(2,006)
Business	20,100	10,100	4,442	5,658
<b>Total support services</b>	<u>205,216</u>	<u>199,717</u>	<u>191,700</u>	<u>8,017</u>
Other	2,300,000	2,711,897	2,391,717	320,180
Site acquisition	-	58,000	58,000	-
<b>Total expenditures</b>	<u>2,505,216</u>	<u>2,969,614</u>	<u>2,641,417</u>	<u>328,197</u>
<b>Revenues over (under) expenditures</b>	124,984	(390,280)	(57,046)	333,234
<b>Fund balance - beginning</b>	<u>495,378</u>	<u>495,378</u>	<u>495,378</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 620,362</u>	<u>\$ 105,098</u>	<u>\$ 438,332</u>	<u>\$ 333,234</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Cooperative Education Fund  
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 797,259	\$ 798,058	\$ 1,034,037	\$ 235,979
Non-educational entity or political subdivision	-	10,200	8,784	(1,416)
State sources	319,171	340,480	321,566	(18,914)
Federal sources	607,408	341,398	349,171	7,773
Other sources	209,178	203,178	208,356	5,178
<b>Total revenues</b>	<b>1,933,016</b>	<b>1,693,314</b>	<b>1,921,914</b>	<b>228,600</b>
<b>Expenditures</b>				
Instruction				
Adult / continuing education	40,055	-	-	-
<b>Total instruction</b>	<b>40,055</b>	<b>-</b>	<b>-</b>	<b>-</b>
Support services				
Pupil	337,867	328,645	340,595	(11,950)
Instructional staff	167,756	249,336	231,447	17,889
Business	7,000	6,600	6,600	-
Operation and maintenance	532,440	852,025	863,424	(11,399)
Central	361,402	288,726	289,277	(551)
<b>Total support services</b>	<b>1,406,465</b>	<b>1,725,332</b>	<b>1,731,343</b>	<b>(6,011)</b>
Community services	408,082	198,994	201,245	(2,251)
Other	243,000	239,174	234,838	4,336
<b>Total expenditures</b>	<b>2,097,602</b>	<b>2,163,500</b>	<b>2,167,426</b>	<b>(3,926)</b>
<b>Revenues over (under) expenditures</b>	<b>(164,586)</b>	<b>(470,186)</b>	<b>(245,512)</b>	<b>224,674</b>
<b>Other financing sources (uses)</b>				
Operating transfers in	384,500	494,625	392,375	(102,250)
Operating transfers (out)	(349,689)	(372,823)	(273,217)	99,606
<b>Net change in fund balance</b>	<b>(129,775)</b>	<b>(348,384)</b>	<b>(126,354)</b>	<b>222,030</b>
<b>Fund balance - beginning</b>	<b>1,821,729</b>	<b>1,821,729</b>	<b>1,821,729</b>	<b>-</b>
<b>Fund balance - ending</b>	<b>\$ 1,691,954</b>	<b>\$ 1,473,345</b>	<b>\$ 1,695,375</b>	<b>\$ 222,030</b>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Funded Projects Fund  
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ -	\$ 20	\$ 26	\$ 6
Federal sources	962,412	1,632,866	1,410,513	(222,353)
<b>Total revenues</b>	<u>962,412</u>	<u>1,632,886</u>	<u>1,410,539</u>	<u>(222,347)</u>
<b>Expenditures</b>				
Business		20	63	(43)
Central	93	322	367	(45)
Community services	909,990	1,558,624	1,371,705	186,919
<b>Total expenditures</b>	<u>910,083</u>	<u>1,558,966</u>	<u>1,372,135</u>	<u>186,831</u>
<b>Revenues over (under) expenditures</b>	52,329	73,920	38,404	(35,516)
<b>Other financing sources (uses)</b>				
Operating transfers (out)	(52,329)	(73,920)	(38,446)	35,474
<b>Net change in fund balance</b>	-	-	(42)	(42)
<b>Fund balance - beginning</b>	<u>6,161</u>	<u>6,161</u>	<u>6,161</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 6,161</u>	<u>\$ 6,161</u>	<u>\$ 6,119</u>	<u>\$ (42)</u>

Gratiot-Isabella Regional Education Service District  
 Required Supplemental Information  
 Michigan Public School Employees Retirement Plan  
 Prospective 10-year trend information

<b>Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability</b>	<b>Plan year Sept 30, 2014</b>
Reporting unit's proportion of net pension liability (%)	0.10049%
Reporting unit's proportionate share of net pension liability	\$ 22,134,885
Reporting unit's covered employee payroll	\$ 8,546,653
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	259.0%
Plan fiduciary net position as a percentage of total pension liability	66.2%

*Note: Amounts were determined as of 9/30 of each fiscal year.*

<b>Schedule of the Reporting Unit's Contributions</b>	<b>Fiscal year June 30, 2015</b>
Statutorily required contributions	\$ 1,951,434
Contributions in relation to statutorily required contributions	\$ 1,951,434
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 8,972,446
Contributions as a percentage of covered-employee payroll	21.7%

*Note: Amounts were determined as of 6/30 of each year.*

**Notes to Required Supplementary Information**

Changes of benefit terms: There were no changes of benefit terms  
 Changes of assumptions: There were no changes of benefit assumptions

## Other Supplemental Information





Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Revenues  
 For the Years Ended June 30, 2015

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<b>Local sources</b>	
Property taxes	\$ 677,642
Interest	2,093
Other local revenues	<u>328,936</u>
Total local sources	<u>1,008,671</u>
<b>State sources</b>	
Unrestricted	
Section 81	714,500
Renaissance zone	1,163
Restricted	
Section 147c - retirement	750,041
Technology infrastructure	2,060
Technology infrastructure - payments from other schools	<u>16,903</u>
Total state sources	<u>1,484,667</u>
<b>Federal Sources</b>	
Restricted	
Title I regional assistance	<u>5,687</u>
Total federal sources	<u>5,687</u>
<b>Other financing sources</b>	
Other sources	697,743
Transfers from other funds	<u>863,187</u>
Total other financing sources	<u>1,560,930</u>
Total general fund revenues and other financing sources	<u><u>\$ 4,059,955</u></u>

Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2015

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**Support services**

Pupil

Attendance	
Salaries	\$ 49,459
Employee benefits	25,971
Purchased services	10,628
Supplies and materials	230
Supplies and materials	60
	86,348
Total pupil	86,348

Instructional staff

Curriculum coordinator	
Salaries	297,624
Employee benefits	200,775
Purchased services	80,771
Supplies and materials	530
Other	6,952
	586,652

Total instructional staff	586,652
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General administration

Board of education	
Purchased services	72,375
	72,375

Total board of education	72,375
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Executive administration

Salaries	202,743
Employee benefits	112,276
Purchased services	15,774
Supplies and materials	5,445
Other	15,723
	351,961

Total executive administration	351,961
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Total general administration	424,336
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Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2015

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**Support services (continued)**

General administration (continued)

Business

Fiscal services

Salaries	\$ 495,053
Employee benefits	312,907
Purchased services	18,767
Other	1,993
	828,720

Total fiscal services

828,720

Internal services

Salaries	46,508
Employee benefits	30,041
Purchased services	6,141
Supplies and materials	45,140
Capital outlay	3,732
Other	13
	131,575

Total internal services

131,575

Other business services

Purchased services	13,469
Other	1,557
	15,026

Total other business services

15,026

Total business

975,321

Operations and maintenance

Salaries	63,652
Employee benefits	49,905
Purchased services	120,984
Supplies and materials	55,442
Supplies and materials	1,982
	291,965

Total operations and maintenance

291,965

Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2015

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**Support services (continued)**

Central		
Staff and personnel services		
Purchased services	\$	47
Total staff and personnel services		47
Technology		
Salaries		257,672
Employee benefits		163,927
Purchased services		214,685
Supplies and materials		57,679
Capital outlay		22,762
Other		10,464
Total data processing		727,189
Pupil accounting		
Payments to other schools		39,398
Total pupil accounting		39,398
Total central		766,634
Total support services		3,131,256
<b>Other financing uses</b>		
Operating transfers out		880,375
Total other financing uses		880,375
Total expenditures	\$	4,011,631

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Revenues  
For the Year Ended June 30, 2015

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<b>Local sources</b>	
Property taxes	\$ 10,356,595
Interest	7,675
Charges for services	1,067,338
Other local revenues	<u>2,204</u>
Total local sources	<u>11,433,812</u>
<b>State sources</b>	
Restricted	
Membership - section 52	1,476,310
Renaissance Zone	18,222
Special education - section 51	2,736,002
Special education - section 53	48,097
Special education - section 56	<u>348,595</u>
Total state sources	<u>4,627,226</u>
<b>Federal sources</b>	
Restricted	
P.L. 94-142 flowthrough	2,920,166
P.L. 94-142 preschool incentive	127,369
P.L. 94-142 state initiated projects - EOSD	50,000
Transition service	58,000
Infant / toddler formula	<u>126,735</u>
Total federal sources	<u>3,282,270</u>
<b>Incoming transfers and other transactions</b>	
Payments from other school districts	<u>318,497</u>
Total incoming transfers and other transactions	<u>318,497</u>
<b>Other financing sources</b>	
Transfers from other funds	<u>438,000</u>
Total other financing sources	<u>438,000</u>
Total revenues	<u><u>\$ 20,099,805</u></u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2015

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**Instruction**

Added needs		
Special education instruction		
Salaries	\$	3,346,129
Employee benefits		2,387,394
Purchased services		171,167
Supplies and materials		52,711
Payments to other schools for services		<u>736,618</u>
Total special education instruction		<u>6,694,019</u>
Total added needs		<u>6,694,019</u>

**Support services**

Pupil services		
Guidance Services		
Salaries		64,911
Employee benefits		38,787
Purchased services		7,200
Supplies and materials		<u>1,297</u>
Total health services		<u>112,195</u>
Health services		
Salaries		750,495
Employee benefits		465,434
Purchased services		65,135
Supplies and materials		<u>30,121</u>
Total health services		<u>1,311,185</u>
Psychological services		
Salaries		388,853
Employee benefits		216,493
Purchased services		35,049
Supplies and materials		<u>25,688</u>
Total psychological services		<u>666,083</u>
Speech pathology services		
Salaries		1,014,554
Employee benefits		624,494
Purchased services		43,807
Supplies and materials		2,501
Payments to other schools for services		<u>23,401</u>
Total speech pathology services		<u>1,708,757</u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2015

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**Support services (continued)**

Pupil services (continued)	
Social worker services	
Salaries	\$ 376,760
Employee benefits	253,602
Purchased services	17,743
Supplies and materials	614
	648,719
Total social worker services	
Teacher consultant services	
Salaries	217,612
Employee benefits	128,799
Purchased services	75,945
Supplies and materials	321
	422,677
Total teacher consultant services	
Other pupil services	
Salaries	94,358
Employee benefits	53,655
Purchased services	13,979
Supplies and materials	2,134
	164,126
Total other pupil services	
Total pupil services	
	5,033,742
Instructional staff	
Improvement of instruction	
Purchased services	8,690
	8,690
Total instructional staff	
	8,690
General administration	
Board of education	
Purchased services	38,990
Other	1,490
	40,480
Total board of education	
	40,480

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2015

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**Support services (continued)**

General administration (continued)

Executive administration

Salaries	\$ 156,609
Employee benefits	101,775
Purchased services	4,095
Supplies and materials	60
Other	1,666
	1,666

Total executive administration 264,205

Total general administration 304,685

School administration

Supervision and direction of instructional staff

Salaries	382,081
Employee benefits	272,477
Purchased services	20,694
Supplies and materials	37,859
Supplies and materials	100
	100

Total school administration 713,211

Business services

Fiscal services

Salaries	11,124
Employee benefits	9,300
Employee benefits	61
	61

Total Fiscal services 20,485

Internal services

Purchased services	6,076
Supplies and materials	17,330
	17,330

Total internal services 23,406

Other business services

Purchased services	135,511
Other	18,996
	18,996

Total other business services 154,507

Total business services 198,398



Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2015

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**Support services (continued)**

Operations and maintenance	
Salaries	\$ 18,107
Employee benefits	13,470
Purchased services	165,728
Supplies and materials	<u>36,628</u>
Total operations and maintenance	<u>233,933</u>
Pupil transportation	
Contracted services	2,603,728
Payments to other schools	<u>896</u>
Total pupil transportation	<u>2,604,624</u>
Central	
Planning, research development and evaluation	
Salaries	29,344
Employee benefits	<u>16,764</u>
Total planning, research development and evaluation	<u>46,108</u>
Staff and personnel services	
Contracted services	<u>2,970</u>
Total staff and personnel services	<u>2,970</u>
Data processing	
Salaries	14,034
Employee benefits	12,050
Purchased services	<u>50,470</u>
Total data processing	<u>76,554</u>
Total central	<u>125,632</u>
Total support services	<u>9,222,915</u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2015

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<b>Payments to other governmental agencies</b>	
Payments to other schools	<u>\$ 3,600,121</u>
Total payments to other governmental agencies	<u>3,600,121</u>
<b>Other financing uses</b>	
Operating transfers out	<u>801,524</u>
Total other financing uses	<u>801,524</u>
Total expenditures	<u><u>\$ 20,318,579</u></u>

Gratiot-Isabella Regional Education Service District  
Vocational Education  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2015

**Revenues**

**Local sources**

Property taxes	\$ 2,565,929
Interest	1,592
Other local revenues	<u>2,100</u>

Total local sources	<u>2,569,621</u>
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**State sources**

Restricted	
Vocational education administration	<u>14,750</u>

Total state sources	<u>14,750</u>
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Total revenues	<u><u>\$ 2,584,371</u></u>
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**Expenditures**

**Support services**

Instructional staff	
Supervision and direction of instructional staff	
Salaries	\$ 105,942
Employee benefits	66,174
Purchased services	8,091
Supplies and materials	2,916
Other	<u>129</u>

Total instructional staff	<u>183,252</u>
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General administration	
Board of education	
Purchased services	<u>4,006</u>

Business services	
Other business services	
Other	<u>4,442</u>

Total support services	<u>191,700</u>
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**Payments to other governmental agencies**

Payments to other schools	<u>2,391,717</u>
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**Facilities Acquisition**

Site acquisition services	
Capital outlay	<u>58,000</u>

Total expenditures	<u><u>\$ 2,641,417</u></u>
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Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Revenues  
 For the Years Ended June 30, 2015

<b>Local sources</b>	
Interest	\$ 258
Charges for services	815,873
Rentals	38,374
Donations	56,251
Other local revenues	<u>123,281</u>
Total local sources	<u>1,034,037</u>
<b>Non-educational entity or political subdivision</b>	
Community Foundation	<u>8,784</u>
Total non-educational entity or political subdivision	<u>8,784</u>
<b>State sources</b>	
Restricted	
First Robotics	4,500
Great start ecic collagerative	215,156
Michigan model health	<u>101,910</u>
Total state sources	<u>321,566</u>
<b>Federal sources</b>	
Unrestricted	
Medicaid	60,270
Restricted	
Nutrition assistance	278,505
Other	<u>10,396</u>
Federal sources	<u>349,171</u>
<b>Incoming transfers and other transactions</b>	
Payments from other schools	<u>208,356</u>
Total incoming transfers and other transactions	<u>208,356</u>
<b>Other financing sources</b>	
Operating transfers in	<u>392,375</u>
Total financing sources	<u>392,375</u>
Total Revenues	<u><u>\$ 2,314,289</u></u>

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2015

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**Support services**

Pupil services		
Other pupil services		
Salaries	\$	79,644
Employee benefits		53,802
Purchased services		120,166
Supplies and materials		51,136
Other		35,847
		340,595
Total pupil services		
Instructional staff		
Improvement of instruction		
Purchased services		15,263
Supplies and materials		26,091
Other		27,256
		68,610
Total improvement of instruction		
Educational media		
Purchased services		3
Payments to other schools		1,030
		1,033
Total educational media		
Technology assisted instruction		
Purchased services		1,875
Other		4,500
		6,375
Total technology assisted instruction		
Staff Supervision		
Salaries		87,252
Employee benefits		60,113
Purchased services		8,064
		155,429
Total educational media		
Total instructional staff		231,447

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2015

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**Support services (continued)**

Business services	
Other business services	
Purchased services	\$ 6,600
Total business services	6,600
Operations and maintenance	
Salaries	38,773
Employee benefits	24,414
Purchased services	57,899
Supplies and materials	95,709
Capital outlay	646,629
Total operations and maintenance	863,424
Central	
Communication services	
Purchased services	552
Supplies and materials	1,521
Total communication services	2,073
Staff and personnel services	
Purchased services	14,998
Other	570
Total staff and personnel services	15,568
Data processing	
Salaries	101,732
Employee benefits	70,421
Purchased services	14,518
Supplies and materials	50,306
Other	60
Total data processing	237,037

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2015

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<b>Support services (continued)</b>	
Central services (continued)	
Pupil activities	
Purchased services	\$ 24,731
Other	9,868
	34,599
Total pupil activities	34,599
	289,277
Total central	289,277
Total support services	1,731,343
<b>Community services</b>	
Community recreation	
Purchased services	38,934
Supplies and materials	3,655
Capital outlay	12,058
Other	5,799
	60,446
Total community recreation	60,446
Community activities	
Salaries	6,440
Employee benefits	3,792
Purchased services	8,552
Supplies and materials	2,384
Other	600
	21,768
Total community activities	21,768
Other community services	
Salaries	18,251
Employee benefits	8,796
Purchased services	69,899
Supplies and materials	18,847
Other	3,238
	119,031
Total other community services	119,031
Total community services	201,245

Gratiot-Isabella Regional Education Service District  
Cooperative Education Fund  
Statement of Expenditures  
For the Years Ended June 30, 2015

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<b>Payments to other governmental agencies</b>	
Payments to other schools	\$ 225,505
Payments to other governmental entities	<u>9,333</u>
Total payments to other governmental agencies	<u>234,838</u>
<b>Other financing uses</b>	
Operating transfers out	<u>273,217</u>
Total other financing uses	<u>273,217</u>
Total expenditures	<u><u>2,440,643</u></u>



Gratiot-Isabella Regional Education Service District  
 Funded Projects Fund  
 Statement of Revenues and Expenditures  
 For the Years Ended June 30, 2015

<b>Revenues</b>	
Local sources	
Interest	\$ 26
Total local sources	<u>26</u>
Federal sources	
Restricted	
Workforce in action - adult	677,226
Workforce in action - dislocated worker	258,421
Employment services/Wagner-Peyser	294,199
Trade adjustment assistance	<u>180,667</u>
Total federal sources	<u>1,410,513</u>
Total revenues	<u>1,410,539</u>
<b>Expenditures</b>	
Business services	
Other business services	
Purchased services	<u>63</u>
Total business services	<u>63</u>
Central	
Staff and personnel services	
Contracted services	<u>367</u>
Total central services	<u>367</u>
Community services	
Employment programs	
Salaries	373,371
Employee benefits	265,608
Purchased services	49,294
Supplies and materials	8,059
Other	<u>675,373</u>
Total community services	<u>1,371,705</u>
Other financing uses	
Operating transfers out	<u>38,446</u>
Total other financing uses	<u>38,446</u>
Total expenditures	<u><u>\$ 1,410,581</u></u>

Gratiot-Isabella Regional Education Service District  
Capital Projects Fund  
Statement of Revenues and Expenditures  
For the Years Ended June 30, 2015

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**Revenues**

Local sources	
Interest	<u>\$          415</u>

**Other financing sources**

Operating transfers in	<u>300,000</u>
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Total revenues	<u><u>\$      300,415</u></u>
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**Expenditures**

Outgoing transfers and other transactions	
Debt service	<u>\$         84,695</u>

Total expenditures	<u><u>\$         84,695</u></u>
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Gratiot-Isabella Regional Education Service District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2015

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
<b>2009 School Improvement Bonds - \$995,000</b>					
Due October 1,					
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>\$ 571,525</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 571,525</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.