

**Gratiot-Isabella Regional  
Education Service District**

***Financial Statements  
With Supplemental Information  
June 30, 2016***



Gratiot-Isabella Regional Education Service District  
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June 30, 2016

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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, 2016, 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, 2016, 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.

### **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 information and 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, are 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 relates 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 20, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

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

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

October 20, 2016

## **Management's Discussion and Analysis**



Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
For the Year Ended June 30, 2016

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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, 2016. Please read this discussion and analysis in conjunction with the District's financial statements 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.

Proprietary Fund

The Statement of Net Position, Statement of Revenues, Expenditures, and Changes in Net Position, and Statement of Cash Flows on pages 7, 8, and 9 respectively provide information on the financial position and results of operations of the internal service fund. Proprietary Funds operate like a business and charge fees for services provided and pay expenditures related to operations. The accounting records are maintained on an accrual basis of accounting similar to that used in the private sector.

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Trust and Agency Funds

The Statement of Net Position - Fiduciary Fund on page 10 presents the resources 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.

**II. Condensed Government-Wide Financial Information**

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

Current assets increased significantly because the cash and investments increased by \$819,404. This increase was due primarily to the vocational education fund. In fiscal year 2015/2016, the amount budgeted for large equipment purchases and for the reimbursement of programs operated by other districts was significantly less than projected. The special education fund also collected significantly more property taxes than expected due to an error in taxable values as reported by one of the counties. Prepaid expenses increased by \$409,457 mostly because the District prefunded health and dental claims for a self-funded plan that was implemented during the year. The amount due from other governmental units increased by \$1,233,831 because some funds were requested later than normal in the special education fund (\$786,022) and payments from counties for the Michigan Works programs were significantly delayed (\$381,966) compared to prior years.

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 and purchased furniture/equipment during the year. Capital assets purchased during the year totaled \$617,730 while current year depreciation was \$234,054. Capital assets with a book value of \$125,165 (net of depreciation) were retired/scrapped during the year.

Deferred outflows increased during the year by \$2,487,013 due to a number of reasons as outlined in note on pages 22 and 23.

The current liabilities increased significantly from the prior primarily due to the increase in accounts payable of \$917,641. In 2015/2016 a reimbursement of \$826,434 for programs operated by another district was not paid until after year end. Normally this payment is made before year end. The District also had a new liability for incurred but not reported claims (IBNR) of \$358,505 for a self-funded health and dental plan that was initiated during the year.

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The increase in noncurrent liabilities is comprised primarily of the increase in net pension liability of \$4,429,930 which can vary significantly from one year to the next based on the many variables used to actuarially determine that amount each year.

Deferred inflows decreased during the year by \$816,478 due to a number of reasons as outlined in note on pages 22 and 23.

The total net position for governmental activities increased by 7.48% for the period or \$668,204. Of this increase, \$488,098 was due to a prior period adjustment related to special education revenues underreported for the prior fiscal year.

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Current Assets	\$ 15,049,178	\$ 12,583,481	\$ 2,465,697
Noncurrent Assets	4,115,427	3,856,916	258,511
Total Assets	<u>\$ 19,164,605</u>	<u>\$ 16,440,397</u>	<u>\$ 2,724,208</u>
Deferred Outflows of Resources	<u>\$ 4,403,133</u>	<u>\$ 1,556,120</u>	<u>\$ 2,847,013</u>
Current Liabilities	\$ 3,981,121	\$ 2,616,280	\$ 1,364,841
Noncurrent Liabilities	27,043,040	22,688,386	4,354,654
Total Liabilities	<u>\$ 31,024,161</u>	<u>\$ 25,304,666</u>	<u>\$ 5,719,495</u>
Deferred Inflows of Resources	<u>\$ 813,747</u>	<u>\$ 1,630,225</u>	<u>\$ -816,478</u>
Investment in Capital Assets (Net of Related Debt)	\$ 3,628,597	\$ 3,285,391	\$ 343,206
Restricted	7,893,774	6,924,562	969,212
Unrestricted	-19,792,541	-19,148,327	-644,214
Total Net Position	<u>\$ -8,270,170</u>	<u>\$ -8,938,374</u>	<u>\$ 668,204</u>

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



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Management Discussion and Analysis  
For the Year Ended June 30, 2016

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**Charges for Services** decreased significantly because the Medicaid Fee for Service revenue decreased by \$447,292. Each year the District receives a settlement for the prior year as the State reconciles the payments made to the District which were based upon estimates with the actual services performed. During the fiscal year ended 6/30/2015, that settlement was relatively large when compared to earlier years. The State has not settled for the fiscal year ended 6/30/2016 and there is no way to reasonably estimate what that settlement may be.

**Operating Grants and Contributions** increased by \$1,031,096 for two reasons. First, the district utilized more IDEA funds of \$555,426 to support special education programs in the current year. Second, the Districts Michigan Works grants increased by \$533,937 from the prior year as the District became a One-Stop operator in Gratiot and Isabella counties and assumed the operation of more employment programs.

**Property taxes** increased by \$760,995 due to an increase in the taxable valuation of property within the District.

**State Aid Not Restricted to Specific Purposes** decreased by \$87,149 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, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Charges for Services	\$ 2,960,927	\$ 3,418,249	\$ -457,322
Operating Grants and Contributions	12,225,164	11,194,068	1,031,096
Total Program Revenues	<u>\$ 15,186,091</u>	<u>\$ 14,612,317</u>	<u>\$ 573,774</u>
Property Taxes	\$14,361,161	\$13,600,166	\$ 760,995
State Aid Not Restricted to Specific Purposes	275,037	366,817	-91,780
Unrestricted Interest and Investment Earnings	13,174	11,644	1,530
Restricted Interest and Investment Earnings	549	415	134
Other	117,134	184,453	-67,319
Total General Revenues	<u>\$14,767,055</u>	<u>\$14,163,495</u>	<u>\$ 603,560</u>
Total Revenues	<u>\$29,953,146</u>	<u>\$28,775,812</u>	<u>\$ 1,177,334</u>

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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 an expansion of special education programs, becoming a One-Stop operator for Michigan Works, and increased retirement costs.

**Community Services** costs increased during the year primarily due to becoming a One-Stop operator for Michigan Works, and increased retirement costs.

**Other** costs decreased this year as payments to other schools for special education and vocational education decreased.

Table 3  
Comparative Summary of Program Expenses by Function and Total Expenses  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Instruction	\$7,107,345	\$6,651,334	\$456,011
Support Services	14,885,683	13,619,481	1,266,202
Community Services	1,708,154	1,566,470	141,684
Other	5,837,805	6,226,676	-388,871
Depreciation – Unallocated	234,054	220,524	13,530
Total Expenses	\$29,773,041	\$28,284,485	\$1,488,556

**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.

Gratiot-Isabella Regional Education Service District  
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Table 4  
Comparative Summary of Net Position and Changes in Net Position  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
<b>Governmental Type Activities:</b>			
Net Position—Beginning	\$-8,938,373	\$-9,429,700	
Prior Period Adjustment	488,098	-	
Net Position-Beginning Restated	<u>-8,450,275</u>	<u>-9,429,700</u>	
Increase (Decrease) in Net Position	180,105	491,327	\$311,222
Net Position – Ending	<u>\$-8,270,170</u>	<u>\$-8,938,373</u>	

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

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 \$-234,054, the capitalization of fixed assets purchased during the year \$617,730, the disposal of fixed assets net of depreciation \$-125,165, the payment of principal on long-term debt \$84,695, the effects retirement on the District-Wide Financial Statements (GASB 68) of \$-766,439 and the inclusion of the net revenues and expense from the Internal Service Fund of \$-138,452. 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, the disposal of fixed assets net of depreciation is recorded as an expense on the District-Wide Financial Statements and the payment of principal on long-term debt is recorded as an expenditure on the Fund Financial Statements.

**Statement of Activities**

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

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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 and IDEA preschool.
Support Services	State Special Education funding including Section 51, Section 52, and Section 53. Federal grants including IDEA flow through, IDEA transition services, IDEA state initiated/competitive, IDEA grants for infants and families, State Administrative Matching Grants for Supplemental Nutrition Assistance Program (SPLASH), Trade Adjustment Assistance, Workforce Innovation and Opportunity Act (National Emergency, Adult, Dislocated Worker, and Youth Activities), Wagner-Peyser, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program.
Community Services	Federal grants including Trade Adjustment Assistance, Workforce Innovation and Opportunity Act (National Emergency, Adult, Dislocated Worker, and Youth Activities), Wagner-Peyser, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program.

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 Vocational Education Fund and the Capital Projects Fund.

The Vocational Education Fund had a significant increase in fund equity as a result of programs operated by other districts incurring less cost than anticipated. The District reimburses those other districts after year end based upon their actual expenditures.

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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	\$4,481,656	\$ 143,613	3.20%
Special Education	21,109,014	-250,969	-1.19%
Vocational Education	2,687,095	419,366	15.61%
Cooperative Education	2,539,783	2,099	0.08%
Funded Projects	1,995,045	16,410	0.82%
Capital Projects	300,549	215,854	71.82%
Debt Service	84,695	-0-	0.00%
Internal Service	1,524,804	68,048	4.46%

### 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.

### 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

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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.

**Internal Service Fund**

Internal Service Fund that was created for the purpose of accounting for a self-funded medical, pharmacy, and dental claims. The fund charges the other funds a fee for health and dental coverage and uses those funds to pay the actual claims, and aggregate/specific stop loss coverage. The fund was created when the District switched from a fully insured health plan to a self-funded plan effective January 1, 2016.

**V. Changes to Budget and Comparison to Actual Results**

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
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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, 2016 the original budget was adopted on June 11, 2015. 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, 2016 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 \$169,855.

Operations and Maintenance - The original budget was amended to increase the amount budgeted for electricity (\$11,000) and contracted services (\$75,000). The contracted services were related to the carpeting, painting, and other maintenance of the Mahoney building.

Operating Transfers Out – The original budget was amended to transfer \$200,000 to the Internal Service fund which wasn't in operation at the beginning of the fiscal year.

#### *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 also increased the amount budgeted for Medicaid revenues by \$577,369

State Sources – The budget was amended to reflect an increase of the special education costs reimbursed for the prior year, which also caused the current year reimbursement to increase, resulting in an overall increase of \$793,570. Of this amount, \$488,098 was recorded as a prior period adjustment. There was an increase in state funding due to enrollment increase over the original projection of \$128,381.

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Other – Payments made to other schools is based upon their pupil membership reduced by the amount of services purchased from the District. The pupil membership in total for the districts decreased and those same districts purchased more services from the District resulting in a reduction in payment of \$258,644.

Operating Transfers In – An operating transfer from the General Fund was reduced by \$100,000 when it was determined that additional State revenues would be generated by an increase in pupil memberships.

*Variances between Final Budget and Actual Amounts*

Local Sources – The District received more revenues than budgeted including Medicaid funds of \$97,999 and property taxes of \$213,134.

Federal Sources – The District utilized \$177,055 less in Federal IDEA funds than expected.

**Vocational Education Fund**

*Changes from Original Budget to Final Budget*

Local Sources – The District increased the budget for property taxes by \$111,619 to reflect the actual amount of taxes levied which wasn't known when the original budget was created.

Other – The budget was increased by \$85,077 to cover the cost for programs operated by other districts based upon budget projections by those districts.

*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 \$397,778 less than anticipated.

**Cooperative Education Fund**

*Changes from Original Budget to Final Budget*

Local Sources – The original budget was amended to reflect an increase in Medicaid revenues of \$195,462 and to increase the budget for a German Exchange program by \$60,725 (fees paid by the participants).



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- Federal Sources – The district included in the original budget an estimated amount for the SPLASH grant based upon prior year amounts. When awarded, the grant was \$192,908 less than anticipated.
- Pupil – The budget for expenses relating to a SPLASH grant were reduced when the estimated amounts were adjust to the actual grant award resulting in a reduction of \$192,908.
- Operating Transfers In – The budget was increased by \$150,000 to record an additional transfer in of Medicaid revenues within the Cooperative Education Fund.
- Operating Transfers Out – The budget was increased by \$150,000 to record an additional transfer out of Medicaid revenues within the Cooperative Education Fund.

*Variiances between Final Budget and Actual Amounts*

- Operations and Maintenance – An amount was budgeted for some renovation projects that weren't completed by year end.

**Funded Projects**

*Changes from Original Budget to Final Budget*

- Federal Sources – The District was awarded a contract to be a One-Stop operator for Michigan Works on October 1, 2015. This significantly increased the Federal revenues over the amount originally budgeted.
- Business – The District was awarded a contract to be the One-Stop operator of Michigan Works on October 1, 2015 and amended the budget to reflect the new contract.
- Operation and Maintenance - The District was awarded a contract to be the One-Stop operator of Michigan Works on October 1, 2015 and amended the budget to reflect the new contract.
- Central - The District was awarded a contract to be the One-Stop operator of Michigan Works on October 1, 2015 and amended the budget to reflect the new contract.
- Community Services - The District was awarded a contract to be a One-Stop operator for Michigan Works on October 1, 2015. This significantly increased the Federal revenues over the amount originally budgeted.

*Variiances between Final Budget and Actual Amounts*

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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 19. The significant additions and disposals are described as follows:

Buildings and Additions – The Mahoney building had renovations including the replacement of the east parking lot, replacement of the HVAC units, and the replacement of the roof. Disposals included some old HVAC units that were replaced.

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

Technology Equipment – An old printer was taken out of service and disposed.

Construction in Process – Improvements made to the Mahoney building including the south restrooms, data center upgrades, and technology department renovations that were not complete at year end. Disposals include improvements made to the east parking lot, replacement of HVAC units, and the roof replacement 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 21. Detailed notes for these long-term debts are also on page 20.

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

In the current year, the District had \$31,167,001 in revenues of which \$14,361,161 or 46% 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

Gratiot-Isabella Regional Education Service District  
Management Discussion and Analysis  
For the Year Ended June 30, 2016

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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, 2016

	Governmental Activities
<b>Assets</b>	
Current assets	
Cash and investments	\$ 11,131,096
Accounts receivable, net	4,761
Prepaid expenses	448,157
Due from other governmental units	3,465,164
Total current assets	15,049,178
Noncurrent assets	
Land	139,955
Capital assets, less accumulated depreciation	3,975,472
Total noncurrent assets	4,115,427
Total assets	19,164,605
<b>Deferred outflows of resources</b>	
Deferred outflow - related to pension	4,403,133
<b>Liabilities</b>	
Current liabilities	
Accounts payable	1,493,168
Salaries payable	922,518
Unearned revenues	425,528
Accrued expenses	683,279
Incurred but not reported claims (IBNR)	358,505
Compensated absences, due within one year	13,428
Long-term obligations, due within one year	84,695
Total current liabilities	3,981,121
Non-current liabilities	
Long-term obligations, due beyond one year	402,135
Compensated absences, due beyond one year	76,090
Net pension liability	26,564,815
Total non-current liabilities	27,043,040
Total liabilities	31,024,161
<b>Deferred inflows of resources</b>	
Deferred inflow - related to pension	87,990
Deferred inflow - 147c allocation	725,757
Total deferred inflows of resources	813,747
<b>Net position</b>	
Net investment in capital assets	3,628,597
Restricted for:	
Special Education	4,278,789
Vocational Education	857,698
Cooperative Education	1,691,133
Funded Projects	22,529
Capital Projects	1,043,531
Debt Service	94
Unrestricted	(19,792,541)
Total net position	\$ (8,270,170)

The notes are an integral part of these financial statements.

Gratiot-Isabella Regional Education Service District  
Statement of Activities - Governmental Activities  
For the Year Ended June 30, 2016

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net Revenues (Expense) and Changes in Net Position</u>
<b>Governmental activities:</b>				
Instruction	\$ 7,107,345	\$ -	\$ 3,402,833	\$ (3,704,512)
Support services	14,885,683	2,960,927	6,753,876	(5,170,880)
Community service	1,708,154	-	2,068,455	360,301
Other	5,837,805	-	-	(5,837,805)
Depreciation - unallocated	234,054	-	-	(234,054)
Total school district	<u>\$ 29,773,041</u>	<u>\$ 2,960,927</u>	<u>\$ 12,225,164</u>	<u>\$ (14,586,950)</u>
<b>General revenues:</b>				
Property taxes				14,361,161
State aid not restricted to specific purposes				275,037
Unrestricted interest and investment earnings				13,174
Restricted interest and investment earnings				549
Other				<u>117,134</u>
Total general revenues				<u>14,767,055</u>
<b>Change in net position</b>				180,105
<b>Net position - beginning</b>				(8,938,373)
<b>Prior period adjustment</b>				<u>488,098</u>
<b>Net position - ending</b>				<u>\$ (8,270,170)</u>

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, 2016

	Major Funds					Non-Major	Total	
	General	Special Education	Vocational Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	Governmental Funds
<b>Assets</b>								
Cash and investments	\$ 1,921,592	\$ 4,532,778	\$ 1,397,652	\$ 1,726,097	\$ 15,085	\$ 1,530,361	\$ 94	\$ 11,123,659
Accounts receivable, net	-	924	-	3,837	-	-	-	4,761
Prepaid expenses	-	22,700	-	6,341	-	-	-	29,041
Due from other funds	558,629	-	1,036	-	-	-	-	559,665
Due from internal service fund	206,500	-	-	-	-	-	-	206,500
Due from other governmental units	364,850	2,386,904	12,737	169,115	531,558	-	-	3,465,164
<b>Total assets</b>	<b>\$ 3,051,571</b>	<b>\$ 6,943,306</b>	<b>\$ 1,411,425</b>	<b>\$ 1,905,390</b>	<b>\$ 546,643</b>	<b>\$ 1,530,361</b>	<b>\$ 94</b>	<b>\$ 15,388,790</b>
<b>Liabilities</b>								
Accounts payable	\$ 25,834	\$ 903,942	\$ 550,809	\$ 9,755	\$ 2,828	\$ -	\$ -	\$ 1,493,168
Salaries payable	8,520	882,275	-	3,779	27,944	-	-	922,518
Due to other funds	-	133,865	-	17,388	408,412	-	-	559,665
Unearned revenues	75,000	187,000	-	163,528	-	-	-	425,528
Accrued expenses	47,230	534,735	2,918	13,466	84,930	-	-	683,279
<b>Total liabilities</b>	<b>156,584</b>	<b>2,641,817</b>	<b>553,727</b>	<b>207,916</b>	<b>524,114</b>	<b>-</b>	<b>-</b>	<b>4,084,158</b>
<b>Fund balance</b>								
Non-spendable	-	22,700	-	6,341	-	-	-	29,041
Restricted	-	4,278,789	857,698	1,691,133	22,529	1,043,531	94	7,893,774
Committed:								
Future bond payments	-	-	-	-	-	486,830	-	486,830
Undesignated	2,894,987	-	-	-	-	-	-	2,894,987
<b>Total fund balance</b>	<b>2,894,987</b>	<b>4,301,489</b>	<b>857,698</b>	<b>1,697,474</b>	<b>22,529</b>	<b>1,530,361</b>	<b>94</b>	<b>11,304,632</b>
<b>Total liabilities and fund balance</b>	<b>\$ 3,051,571</b>	<b>\$ 6,943,306</b>	<b>\$ 1,411,425</b>	<b>\$ 1,905,390</b>	<b>\$ 546,643</b>	<b>\$ 1,530,361</b>	<b>\$ 94</b>	<b>\$ 15,388,790</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  
 June 30, 2016

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Total fund balance - governmental funds	\$ 11,304,632
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	6,469,126
Deduct: Accumulated depreciation	(2,353,699)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences payable	(89,518)
Add: Deferred outflow - related to pension	4,403,133
Deduct: Net pension liability	(26,564,815)
Deduct: Deferred inflow - related to pension	(87,990)
Deduct: Deferred inflow - 147c allocation	(725,757)
Long-term obligations	
Deduct: 2009 improvement bonds	(486,830)
Internal Service Fund	
Deduct: Internal service assets and liabilities in the statement of net position	<u>(138,452)</u>
Net position of governmental activities	<u><u>\$ (8,270,170)</u></u>

Gratiot-Isabella Regional Education Service District  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2016

	Major Funds						Non-Major	Total
	General	Special Education	Vocational Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	Governmental Funds
<b>Revenues</b>								
Local sources	\$ 991,176	\$ 11,621,670	\$ 2,664,492	\$ 1,091,086	\$ 16,487	\$ 549	\$ -	\$ 16,385,460
Non-edu. entity or political subdivision	-	-	-	35,811	-	-	-	35,811
State sources	1,801,131	4,924,747	17,815	321,783	34,082	-	-	7,099,558
Federal sources	3,365	3,832,596	4,788	244,844	1,944,476	-	-	6,030,069
Other sources	696,595	217,001	-	214,409	-	-	-	1,128,005
<b>Total revenues</b>	<b>3,492,267</b>	<b>20,596,014</b>	<b>2,687,095</b>	<b>1,907,933</b>	<b>1,995,045</b>	<b>549</b>	<b>-</b>	<b>30,678,903</b>
<b>Expenditures</b>								
Instruction								
Added needs	-	7,025,902	-	-	-	-	-	7,025,902
Total instruction	-	7,025,902	-	-	-	-	-	7,025,902
Support services								
Pupil	93,779	5,570,648	-	334,800	-	-	-	5,999,227
Instructional staff	573,967	10,481	195,977	296,226	-	-	-	1,076,651
General administration	440,285	312,377	7,222	-	-	-	-	759,884
School administration	-	728,538	-	-	-	-	-	728,538
Business	995,034	225,917	8,701	5,189	45,537	-	-	1,280,378
Operation and maintenance	313,568	279,526	-	686,270	195,926	-	-	1,475,290
Pupil transportation	-	2,721,364	-	-	-	-	-	2,721,364
Central	770,060	131,997	-	333,615	2,386	-	-	1,238,058
Total support services	3,186,693	9,980,848	211,900	1,656,100	243,849	-	-	15,279,390
Community services	-	43,553	-	132,458	1,522,228	-	-	1,698,239
Debt service	-	-	-	-	-	-	84,695	84,695
Other	-	3,355,467	2,055,829	229,393	197,116	-	-	5,837,805
Total expenditures	3,186,693	20,405,770	2,267,729	2,017,951	1,963,193	-	84,695	29,926,031
<b>Revenues over (under) expenditures</b>	<b>305,574</b>	<b>190,244</b>	<b>419,366</b>	<b>(110,018)</b>	<b>31,852</b>	<b>549</b>	<b>(84,695)</b>	<b>752,872</b>
<b>Other financing sources (uses)</b>								
Transfers in	989,388	513,000	-	631,850	-	300,000	84,695	2,518,933
Transfers (out)	(944,850)	(954,213)	-	(519,733)	(15,442)	(84,695)	-	(2,518,933)
<b>Net change in fund balance</b>	<b>350,112</b>	<b>(250,969)</b>	<b>419,366</b>	<b>2,099</b>	<b>16,410</b>	<b>215,854</b>	<b>-</b>	<b>752,872</b>
<b>Fund balance - beginning</b>	<b>2,544,875</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>10,063,662</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>488,098</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>488,098</b>
<b>Fund balance - ending</b>	<b>\$ 2,894,987</b>	<b>\$ 4,301,489</b>	<b>\$ 857,698</b>	<b>\$ 1,697,474</b>	<b>\$ 22,529</b>	<b>\$ 1,530,361</b>	<b>\$ 94</b>	<b>\$ 11,304,632</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, 2016

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Net change in fund balances - total governmental funds	\$	752,872
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Add: Capital outlay		617,730
Deduct: Disposal of fixed assets net of accumulated depreciation		(125,165)
Deduct: Depreciation expense		(234,054)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Deduct: Change in accrual for compensated absences		(11,082)
Add: Change in deferred outflow - related to pension		2,847,013
Deduct: Change in net pension liability		(4,429,930)
Add: Change in deferred inflow - related to pension		1,542,235
<p>Revenue in support of pension contribution made subsequent to the measurement date.</p>		
Deduct: Change in deferred inflow - 147c allocation		(725,757)
<p>Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).</p>		
Add: Principal payment on 2009 improvement bonds		84,695
<p>Include revenues and expenses from the internal service fund in the governmental activities of the statement of activities.</p>		
Deduct: Net revenues and expenses		(138,452)
Change in net position of governmental activities	\$	<u>180,105</u>

Gratiot-Isabella Regional Education Service District  
Proprietary Fund  
Statement of Net Position  
June 30, 2016

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	Internal Service Fund
<b>Assets</b>	
Current assets	
Cash and investments	\$ 7,437
Prepaid expenses	419,116
Total assets	<u>426,553</u>
<b>Liabilities</b>	
Current liabilities	
Incurred but not reported claims (IBNR)	358,505
Due to general fund	206,500
Total liabilities	<u>565,005</u>
<b>Net position</b>	
Unrestricted	<u><u>\$ (138,452)</u></u>

Gratiot-Isabella Regional Education Service District  
Proprietary Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2016

	Internal Service Fund
<b>Operating revenues</b>	
Employer health and dental premiums	\$ 1,248,673
Employee health premiums	69,631
Total operating revenues	1,318,304
<b>Operating expenses</b>	
Medical and dental claims	1,075,192
Insurance premiums	287,792
Purchased services	83,012
Other	10,800
Total operating expenses	1,456,796
Operating income	(138,492)
Non operating revenues	
Interest income	40
Net change in net position	(138,452)
<b>Net position - beginning</b>	-
<b>Net position - ending</b>	\$ (138,452)

Gratiot-Isabella Regional Education Service District  
Proprietary Fund  
Statement of Cash Flows  
For the Year Ended June 30, 2016

	Internal Service Fund
<b>Cash flows from operating activities</b>	
Employer health and dental premiums	\$ 1,248,673
Employee health premiums	69,631
Payment to prefund health and dental claims	(419,116)
Payment of medical and dental claims	(781,494)
Payment of insurance premiums	(240,030)
Payment of purchased services	(67,767)
Other payments	(9,000)
	(199,103)
<b>Net cash from operating activities</b>	(199,103)
<b>Cash flows from investing activities</b>	
Interest received	40
<b>Cash flows from non-capital financing activities</b>	
Payments from other funds	206,500
	7,437
<b>Net change in cash and cash equivalents</b>	7,437
Cash and cash equivalents - beginning	-
	7,437
<b>Cash and cash equivalents - ending</b>	\$ 7,437
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating Income	68,008
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Prepaid expenses	(419,116)
Incurred but not reported claims (IBNR)	358,505
	(60,611)
<b>Total adjustments</b>	(60,611)
<b>Net cash provided by operating activities</b>	\$ 7,397

Gratiot-Isabella Regional Education Service District  
Statement of Net Position - Fiduciary Fund  
June 30, 2016

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**Assets**

Cash	\$ 32,770
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Total assets	32,770
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**Liabilities**

Due to student activities	32,770
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Total liabilities	32,770
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**Net Position**

	\$ -
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**Notes to the Financial Statements**





**Note 1 - Summary of Significant Accounting Policies**

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

**Reporting Entity**

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

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

**District-wide and Fund Financial Statements**

The District-wide financial statements (i.e. the statement of net 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, proprietary 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.

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,

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2016

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debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

The District reports the following major and non-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 four 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.

Internal service funds are a propriety fund which is used to provide services to the other funds on a cost reimbursement basis. The services provided include self-funded medical and dental coverage for the employees of the District. The various governmental funds pay premiums to the internal service fund based upon the illustrative rates computed by the administrator of the plan. The internal service fund uses those funds to pay the actual cost of the claims and stop loss insurance premiums. The internal service fund is accounted for using the accrual basis of accounting.

#### **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.

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

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2016

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**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 \$2,661,758,923 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 2022/2023 fiscal year.

	<u>2016</u>
General Operations Tax Levy	\$ 702,704
Special Education Tax Levy	10,738,866
Vocational Education Tax Levy	2,661,759

**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.

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
Furniture	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.

#### **Incurred but not Reported (IBNR) Liability**

The amounts recorded in liabilities include amounts for medical, pharmacy and dental claims liability based on management's estimate. The District may not be billed for these until several months after the date of service. The actual cost may vary from the estimated amount for a variety of reasons. The methodology used in estimating reserves considers factors such as historical data adjusted for payment patterns, cost trends, service and benefit mixes, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increases or decreases in membership, and other relevant factors.

#### **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, 2016 was \$89,518. 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 pension plan. See Note 14 for additional information.

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 two items that qualify for reporting in this category: deferred inflow – related to pensions and deferred inflow – 147c allocation. See Note 14 for additional information for regarding the deferred inflow – related to pensions. The deferred inflow – 147c allocation pertains to 147c revenue in support of pension contributions made subsequent to the measurement date.

#### **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  
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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>Total</u>
Petty Cash		\$500
Checking, Savings & Money Market Accounts		4,919,950
State Investment Pool – MILAF		6,210,646
Total		\$11,131,096

**Deposits with Financial Institutions**

At year-end, the carrying amount of the District's deposits was \$4,919,950 and the bank balance was \$4,442,013. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits that exceed FDIC insurance coverage limits are held at local banks.

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

The District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school Districts. MILAF is not regulated nor is it registered with the SEC. As of June 30, 2016, 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, 2016, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool-MICMS	\$ 6,381,780	0.1269	AAAm	84.9%
MILAF External Investment pool-MIMAX	1,131,847	0.1269	AAAm	15.1%
Total fair value	\$ 7,513,627			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 \$6,210,646 and the balance per the MILAF was \$7,513,627. 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-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the

Gratiot-Isabella Regional Education Service District  
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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.

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

**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:

Gratiot-Isabella Regional Education Service District  
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**General Fund**

State of Michigan – State Aid	\$ 134,114
State of Michigan – Retirement	190,087
State of Michigan – TIRA Grant	3,365
State of Michigan – Early Literacy	13,643
State of Michigan – TRIG Grant	1,686
Other Schools – Technology Services	2,318
Other Schools – Accounting/Finance Services	8,400
Other ISD’s – TRIG Grant	9,993
City/County – Delinquent Property Taxes and PILT	1,244

<b>Total General Fund</b>	<b>\$ 364,850</b>
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**Special Education Fund**

State of Michigan – Flow through	\$ 1,352,474
State of Michigan – State Aid	901,116
State of Michigan – Preschool	51,954
State of Michigan - Transition	13,832
State of Michigan - EOSD	13,050
State of Michigan – Early On	29,451
Other Schools	6,010
County – Delinquent Property Taxes and PILT	19,017

<b>Total Special Education Fund</b>	<b>\$ 2,386,904</b>
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**Vocational Education Fund**

State of Michigan – Vocational Ed. Administration	\$ 2,774
State of Michigan – Renaissance Zone	472
Other ISD’s - Perkins	4,788
County – Delinquent Property Taxes and PILT	4,703

<b>Total Vocational Education Fund</b>	<b>\$ 12,737</b>
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**Cooperative Education Fund**

MI Primary Care Association	\$ 26,250
MI Fitness Foundation	85,062
State of Michigan – Educator/Admin. Evaluation	19,375
State of Michigan – Early Childhood Block Grant	35,514
State of Michigan – First Robotics	728
State of Michigan – Title II A	792
Other	1,394

<b>Total Cooperative Education Fund</b>	<b>\$ 169,115</b>
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**Funded Projects Fund**

Counties – Trade Adjustment Assistance	\$ 14,380
Counties – National Emergency Grants	24,046
Counties – WIOA Adult	205,246
Counties – WIOA Dislocated Worker	70,231
Counties – WIOA Youth Activities	119,638
Counties – Employment Services Wagner-Peyser	11,928
Counties – Temporary Assistance for Needy Families	82,603
Counties – Supplemental Nutrition Assistance Program	3,486

<b>Total Funded Projects Fund</b>	<b>\$ 531,558</b>
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<b>Total</b>	<b>\$ 3,465,164</b>
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Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
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**Note 6 – Due between funds**

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	\$ 558,629	Special Education	\$ 133,865
Vocational Education	1,036	Cooperative Education	17,388
		Funded Projects	408,412
<b>Total</b>	<b>\$ 559,665</b>	<b>Total</b>	<b>\$ 559,665</b>

The internal service fund owes the general fund \$206,500 for money that the general fund provided to assist in starting up the internal service fund. Management expects that the internal service fund will repay the general fund during fiscal year 2016-2017.

**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>Amount</u>
Special Education Fund	
Prefunded Substitute Teacher Costs	\$ 22,700
Cooperative Education Fund	
Conference Registration Fees and Related Costs	6,341
Internal Service Fund	
Prefunded Health and Dental Claims	419,116
<b>Total</b>	<b>\$ 448,157</b>

**Note 8 - Capital Assets**

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

Capital Assets	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 139,955	\$ -	\$ -	\$ 139,955
Buildings and Improvements	5,095,654	574,829	(16,572)	5,653,911
Equipment	201,724	19,789	(8,424)	213,089
Furniture	63,531	-	-	63,531
MMNet System	74,620	-	-	74,620
Technology Equipment	303,611	-	(2,703)	300,908
Construction in Process	110,555	23,112	(110,555)	23,112
<b>Total Capital Assets</b>	5,989,650	617,730	(138,254)	6,469,126
<b>Accumulated Depreciation</b>				
Buildings and Improvements	(1,769,233)	(183,552)	4,599	(1,948,186)
Equipment	(113,674)	(15,961)	5,788	(123,847)
Furniture	(19,462)	(5,659)	-	(25,121)
MMNet System	(63,427)	(3,731)	-	(67,158)
Technology Equipment	(166,938)	(25,151)	2,702	(189,387)
<b>Total Accumulated Depreciation</b>	(2,132,734)	(234,054)	13,089	(2,353,699)
<b>Net Capital Assets</b>	\$ 3,856,916	\$ 383,676	\$(125,165)	\$ 4,115,427

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Depreciation for the year ended June 30<sup>th</sup> totaled \$234,054. 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>General Fund</u>	<u>Special Ed. Fund</u>	<u>Voc. Ed. Fund</u>	<u>Coop. Ed. Fund</u>	<u>Funded Projects</u>	<u>Total</u>
Retirement	\$ 40,188	\$ 370,313	\$ 2,918	\$ 4,380	\$ 9,291	\$ 427,090
FICA	637	67,494	-	289	2,110	70,530
Health Care	-	96,928	-	-	-	96,928
Unemployment	-	-	-	8,797	25,613	34,410
TRIG Stipends	6,405	-	-	-	-	6,405
Mid-Michigan Industries	-	-	-	-	47,916	47,916
<b>Total</b>	<b>\$47,230</b>	<b>\$ 534,735</b>	<b>\$ 2,918</b>	<b>\$ 13,466</b>	<b>\$ 84,930</b>	<b>\$ 683,279</b>

**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 following fiscal year, there is a settlement with the State of Michigan based on actual claims submitted. The District has made a provision of \$187,000 for this settlement based upon past experience.

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

<u>Unearned Revenue</u>	<u>General Fund</u>	<u>Special Ed. Fund</u>	<u>Cooperative Ed. Fund</u>	<u>Total</u>
Early Literacy Grant	\$ 75,000	-	-	\$ 75,000
State of Michigan – Medicaid	-	\$ 187,000	-	187,000
Educator/Administrator Evaluation Grant	-	-	\$106,516	106,516
32p Block Grant	-	-	47,972	47,972
Michigan Primary Care Association Grant	-	-	4,806	4,806
Community Champion Program Grant	-	-	2,800	2,800
Hometown Hero's Grant	-	-	1,434	1,434
<b>Total</b>	<b>\$ 75,000</b>	<b>\$ 187,000</b>	<b>\$163,528</b>	<b>\$ 425,528</b>

**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.

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Changes in general long-term debt during the year ended June 30<sup>th</sup> are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Comp. Absences	\$ 78,436	\$ 11,082	\$ -	\$ 89,518	\$ 13,428	\$ 76,090
2009 Improvement Bonds	571,525	-	84,695	486,830	84,695	402,135
Total	\$ 649,961	\$ 11,082	\$ 84,695	\$ 576,348	\$ 98,123	\$ 478,225

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

**Note 13 – Transfers between funds**

During the year the following transfers were made between funds:

The general fund made the following transfers to -

Special education to reimburse FICA and fund shortfall in funding	\$ 513,000
Cooperative education fund to fund shortfall in several programs	131,850
Capital projects for facility improvements	300,000

The cooperative education fund made the following transfers to -

General fund for indirect costs	19,733
Cooperative education fund to transfer money to other programs	500,000

The funded projects fund made the following transfers to -

General fund for indirect costs	15,442
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The special education fund made the following transfers to -

General fund for indirect costs	954,213
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The capital projects fund made the following transfers to -

Debt fund to make payment on bond issue.	84,695
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Total	\$ 2,518,933
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**Note 14 - Employee Retirement System Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Plan Description**

The Michigan Public School Employees' Retirement System (System or 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 is administered by the Office of Retirement Services (ORS) 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.

The System's financial statements are available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

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**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. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. 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.

**Contributions and Funded Status**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. 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. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Pension Contribution Rates	
	Member	Employer
Basic	0.0 - 4.0 %	22.52 – 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 – 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 – 18.76

Required contributions to the pension plan from the District were \$2,098,134 for the year ended September 30, 2015.

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

At June 30, 2016, the District reported a liability of \$26,564,815 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.10876064%, which was an increase of 0.00826859% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,660,363. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	87,990
Changes of assumptions	654,082	-
Net difference between projected and actual earnings on pension plan investments	135,592	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	1,542,284	-
Reporting Unit contributions subsequent to the measurement date	<u>2,071,175</u>	-
Total	4,403,133	87,990

\$2,071,175 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Plan Year Ended September 30	Amount:
2016	489,610
2017	489,610
2018	454,142
2019	810,606

Actuarial Assumptions

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:

**Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
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
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. 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 period 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, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2016

*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: [4.7158 for non-university employers 1.3923 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).*

**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, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
Total	100.0	

\*Long term rate of return does not include 2.1% inflation

**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 provided through non-university employers only). 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 District's proportionate share of the net pension liability to changes in the discount rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District'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 higher:

<b>1% Decrease (Non-Hybrid/Hybrid)*</b>	<b>Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*</b>	<b>1% Increase (Non-Hybrid/Hybrid)*</b>
<b>7.0% / 6.0%</b>	<b>8.0% / 7.0%</b>	<b>9.0% / 8.0%</b>
34,248,857	26,564,815	20,086,854

**Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued 2015 MPSERS CAFR ([www.michigan.gov/documents/orsschools/MPSERS\\_CAFR\\_2015\\_Final\\_510211\\_7.pdf](http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf))

**Payables to the Michigan Public School Employees' Retirement System (MPSERS)**

At June 30, 2016, the District reported a payable of \$427,090 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016, consisting of pension contribution payable plus any other amounts owed to the pension plan including the UAAL payments for July and August 2016.

### **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.

Upon retirement, pension and other post-retirement benefits are paid by the State of Michigan from funding provided by the District.

### **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.

The District does not have an explicit, measurable equity interest in MMNET therefore an asset has not been reported in connection with the District's participation in this joint venture

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

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

### **NOTE 17 – 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

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2016

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 – Operating Lease as Lessee**

The District entered into a five year lease agreement with Lone Maple Development, LCC commencing on October 1, 2015. The lease provides for a fixed lease payment of \$17,083 per month for the term of the lease. Operating lease expense for the fiscal year was 153,747. The minimum future lease payments are as follows:

<u>Year Ended June 30,</u>	<u>Minimum Future Lease Payments</u>
2017	\$ 204,996
2018	204,996
2019	204,996
2020	204,996
2021	51,249
	\$871,233

**NOTE 19 – Self Insurance Liability**

The District maintains a self-insurance program for the employees medical, pharmacy, and dental claims. The various governmental funds pay monthly premiums to the internal service fund based upon illustrative rates calculated by the administrator of the plan. These premiums provide the source of revenue to pay the claims, taxes, and various insurance premiums for aggregate and specific stop loss coverage.

The specific stop loss coverage will pay any medical/pharmacy claims in excess of \$35,000 per contract. The aggregate stop loss coverage will pay any medical/pharmacy claims if the overall claims for all employees exceed 120% of the illustrative rates paid to the fund.

The District believes the estimated liabilities for all unsettled employee medical, pharmacy, and dental claims at June 30, 2016 are adequate to reflect all claims for incurred as of that date. To determine the estimated liabilities at year end, the district recorded a payable equal to the total claims processed during July and August following fiscal year end with a service date of on or before the date of the fiscal year end.

**NOTE 20 – Prior Period Adjustment**

The prior period adjustment in these financial statements consists of the following items:

Description	Amount
FY 2015 Special Education Section 51a received in FY 2016	488,098



**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, 2016

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 928,215	\$ 956,509	\$ 991,176	\$ 34,667
State sources	1,590,688	1,794,375	1,801,131	6,756
Federal sources	-	6,500	3,365	(3,135)
Other sources	691,506	715,748	696,595	(19,153)
<b>Total revenues</b>	<b>3,210,409</b>	<b>3,473,132</b>	<b>3,492,267</b>	<b>19,135</b>
<b>Expenditures</b>				
Support services				
Pupil	80,485	91,979	93,779	(1,800)
Instructional staff	633,571	654,104	573,967	80,137
General administration	482,130	491,627	440,285	51,342
Business	1,069,060	1,087,475	995,034	92,441
Operation and maintenance	231,713	335,557	313,568	21,989
Central	806,928	819,574	770,060	49,514
<b>Total expenditures</b>	<b>3,303,887</b>	<b>3,480,316</b>	<b>3,186,693</b>	<b>293,623</b>
<b>Revenues over (under) expenditures</b>	<b>(93,478)</b>	<b>(7,184)</b>	<b>305,574</b>	<b>312,758</b>
<b>Other financing sources (uses)</b>				
Transfers in	942,062	920,704	989,388	68,684
Transfers (out)	(958,625)	(1,144,850)	(944,850)	200,000
<b>Net change in fund balance</b>	<b>(110,041)</b>	<b>(231,330)</b>	<b>350,112</b>	<b>581,442</b>
<b>Fund balance - beginning</b>	<b>2,544,875</b>	<b>2,544,875</b>	<b>2,544,875</b>	<b>-</b>
<b>Fund balance - ending</b>	<b>\$ 2,434,834</b>	<b>\$ 2,313,545</b>	<b>\$ 2,894,987</b>	<b>\$ 581,442</b>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Special Education Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 11,249,707	\$ 11,307,361	\$ 11,621,670	\$ 314,309
State sources	4,048,415	4,924,722	4,924,747	25
Federal sources	4,041,718	4,015,466	3,832,596	(182,870)
Other sources	441,238	217,001	217,001	-
<b>Total revenues</b>	19,781,078	20,464,550	20,596,014	131,464
<b>Expenditures</b>				
Instruction				
Added needs	6,894,435	6,942,025	7,025,902	(83,877)
<b>Total instruction</b>	6,894,435	6,942,025	7,025,902	(83,877)
Support services				
Pupil	5,834,888	5,716,996	5,570,648	146,348
Instructional staff	10,300	10,523	10,481	42
General administration	303,035	299,070	312,377	(13,307)
School administration	731,759	726,015	728,538	(2,523)
Business	246,964	254,993	225,917	29,076
Operation and maintenance	315,050	280,698	279,526	1,172
Pupil transportation	2,613,500	2,603,650	2,721,364	(117,714)
Central	130,127	134,534	131,997	2,537
<b>Total support services</b>	10,185,623	10,026,479	9,980,848	45,631
Community Services		75,000	43,553	31,447
Other	3,610,510	3,351,866	3,355,467	(3,601)
<b>Total expenditures</b>	20,690,568	20,395,370	20,405,770	(10,400)
<b>Revenues over (under) expenditures</b>	(909,490)	69,180	190,244	121,064
<b>Other financing sources (uses)</b>				
Transfers in	613,000	513,000	513,000	-
Transfers (out)	(882,344)	(954,947)	(954,213)	734
<b>Net change in fund balance</b>	(1,178,834)	(372,767)	(250,969)	121,798
<b>Fund balance - beginning</b>	4,064,360	4,064,360	4,064,360	-
<b>Prior period adjustment</b>	488,098	488,098	488,098	-
<b>Fund balance - ending</b>	<u>\$ 3,373,624</u>	<u>\$ 4,179,691</u>	<u>\$ 4,301,489</u>	<u>\$ 121,798</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Vocational Education Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 2,555,200	\$ 2,668,129	\$ 2,664,492	\$ (3,637)
State sources	18,383	17,091	17,815	724
Federal Sources	-	4,788	4,788	-
Total revenues	2,573,583	2,690,008	2,687,095	(2,913)
<b>Expenditures</b>				
Support services				
Instructional Staff	192,376	196,052	195,977	75
General administration	2,000	5,000	7,222	(2,222)
Business	10,100	10,100	8,701	1,399
Total support services	204,476	211,152	211,900	(748)
Other	2,368,530	2,453,607	2,055,829	397,778
Site acquisition	28,000	-	-	-
Total expenditures	2,601,006	2,664,759	2,267,729	397,030
<b>Revenues over (under) expenditures</b>	(27,423)	25,249	419,366	394,117
<b>Fund balance - beginning</b>	438,332	438,332	438,332	-
<b>Fund balance - ending</b>	<u>\$ 410,909</u>	<u>\$ 463,581</u>	<u>\$ 857,698</u>	<u>\$ 394,117</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Cooperative Education Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 794,593	\$ 1,085,343	\$ 1,091,086	\$ 5,743
Non-educational entity or political subdivision	9,500	6,557	35,811	29,254
State sources	391,640	321,153	321,783	630
Federal sources	480,871	295,465	244,844	(50,621)
Other sources	204,319	209,319	214,409	5,090
<b>Total revenues</b>	<b>1,880,923</b>	<b>1,917,837</b>	<b>1,907,933</b>	<b>(9,904)</b>
<b>Expenditures</b>				
Support services				
Pupil	518,090	351,610	334,800	16,810
Instructional staff	274,438	291,452	296,226	(4,774)
Business	6,600	6,800	5,189	1,611
Operation and maintenance	906,241	834,655	686,270	148,385
Central	292,202	370,392	333,615	36,777
<b>Total support services</b>	<b>1,997,571</b>	<b>1,854,909</b>	<b>1,656,100</b>	<b>198,809</b>
Community services	121,900	135,034	132,458	2,576
Other	246,174	255,548	229,393	26,155
<b>Total expenditures</b>	<b>2,365,645</b>	<b>2,245,491</b>	<b>2,017,951</b>	<b>227,540</b>
<b>Revenues over (under) expenditures</b>	<b>(484,722)</b>	<b>(327,654)</b>	<b>(110,018)</b>	<b>217,636</b>
<b>Other financing sources (uses)</b>				
Transfers in	491,500	631,850	631,850	-
Transfers (out)	(400,108)	(520,905)	(519,733)	1,172
<b>Net change in fund balance</b>	<b>(393,330)</b>	<b>(216,709)</b>	<b>2,099</b>	<b>218,808</b>
<b>Fund balance - beginning</b>	<b>1,695,375</b>	<b>1,695,375</b>	<b>1,695,375</b>	<b>-</b>
<b>Fund balance - ending</b>	<b>\$ 1,302,045</b>	<b>\$ 1,478,666</b>	<b>\$ 1,697,474</b>	<b>\$ 218,808</b>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Funded Projects Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 20	\$ 16,420	\$ 16,487	\$ 67
State sources	-	-	34,082	34,082
Federal sources	1,359,331	2,122,173	1,944,476	(177,697)
<b>Total revenues</b>	1,359,351	2,138,593	1,995,045	(143,548)
<b>Expenditures</b>				
Support services				
Business	20	68,601	45,537	23,064
Operation and maintenance	-	224,679	195,926	28,753
Central	322	4,821	2,386	2,435
<b>Total support services</b>	342	298,101	243,849	54,252
Community services	1,285,089	1,605,460	1,522,228	83,232
Other	-	203,238	197,116	6,122
<b>Total expenditures</b>	1,285,431	2,106,799	1,963,193	143,606
<b>Revenues over (under) expenditures</b>	73,920	31,794	31,852	58
<b>Other financing sources (uses)</b>				
Transfers (out)	(73,920)	(15,442)	(15,442)	-
<b>Net change in fund balance</b>	-	16,352	16,410	58
<b>Fund balance - beginning</b>	6,119	6,119	6,119	-
<b>Fund balance - ending</b>	\$ 6,119	\$ 22,471	\$ 22,529	\$ 58

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>
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Description	Plan year Sept 30, 2015	Plan year Sept 30, 2014
Reporting unit's proportion of net pension liability (%)	0.1087606%	0.10049205%
Reporting unit's proportionate share of net pension liability	\$ 26,564,815	\$ 22,134,885
Reporting unit's covered employee payroll	\$ 9,086,611	\$ 8,546,653
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	292.35%	258.99%
Plan fiduciary net position as a percentage of total pension liability	62.92%	66.20%

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

<b>Schedule of the Reporting Unit's Contributions</b>
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Description	Fiscal year June 30, 2016	Fiscal year June 30, 2015
Statutorily required contributions	\$ 2,592,117	\$ 1,951,434
Contributions in relation to statutorily required contributions	\$ 2,592,117	\$ 1,951,434
Contribution deficiency (excess)	\$ -	\$ -
Reporting unit's covered-employee payroll	\$ 9,489,744	\$ 8,972,446
Contributions as a percentage of covered-employee payroll	27.31%	21.75%

*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 Year Ended June 30, 2016

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**Local sources**

Property taxes	\$ 718,097
Interest	3,700
Other local revenues	<u>269,379</u>
Total local sources	991,176

**State sources**

Unrestricted	
Section 81	736,698
Renaissance zone	677
Restricted	
Section 147c - retirement	1,045,006
Technology infrastructure	1,686
Technology infrastructure - payments from other schools	<u>17,064</u>
Total state sources	1,801,131

**Federal Sources**

Restricted	
Title I regional assistance	<u>3,365</u>
Total federal sources	3,365

**Other financing sources**

Other sources	696,595
Transfers from other funds	<u>989,388</u>
Total other financing sources	<u>1,685,983</u>
Total general fund revenues and other financing sources	<u><u>\$ 4,481,655</u></u>

Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2016

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**Support services**

Pupil

Attendance

Salaries	\$ 53,403
Employee benefits	30,515
Purchased services	9,668
Supplies and materials	193
	93,779

Total pupil 93,779

Instructional staff

Curriculum coordinator

Salaries	321,589
Employee benefits	222,810
Purchased services	25,102
Supplies and materials	2,075
Other	2,391
	573,967

Total instructional staff 573,967

General administration

Board of education

Purchased services	78,041
	78,041

Total board of education 78,041

Executive administration

Salaries	211,721
Employee benefits	121,369
Purchased services	13,874
Supplies and materials	1,408
Other	13,872
	362,244

Total executive administration 362,244

Total general administration 440,285

Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2016

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**Support services (continued)**

General administration (continued)

Business

Fiscal services

Salaries	\$	493,888
Employee benefits		335,288
Purchased services		20,774
Other		2,588
		852,538

Total fiscal services

852,538

Internal services

Salaries		46,521
Employee benefits		31,052
Purchased services		7,779
Supplies and materials		39,981
		125,333

Total internal services

125,333

Other business services

Purchased services		14,032
Other		3,131
		17,163

Total other business services

17,163

Total business

995,034

Operations and maintenance

Salaries		50,189
Employee benefits		42,841
Purchased services		157,972
Supplies and materials		58,652
Capital outlay		3,914
		313,568

Total operations and maintenance

313,568

Gratiot-Isabella Regional Education Service District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2016

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**Support services (continued)**

Central		
Staff and personnel services		
Purchased services	\$	134
Total staff and personnel services		134
Technology		
Salaries		282,202
Employee benefits		180,280
Purchased services		215,532
Supplies and materials		37,434
Capital outlay		4,445
Other		1,107
Total technology		721,000
Pupil accounting		
Payments to other schools		48,926
Total pupil accounting		48,926
Total central		770,060
Total support services		3,186,693
<b>Other financing uses</b>		
Transfers out		944,850
Total other financing uses		944,850
Total expenditures	\$	4,131,543

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Revenues  
For the Year Ended June 30, 2016

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**Local sources**

Property taxes	\$ 10,979,995
Interest	7,663
Charges for services	624,584
Other local revenues	<u>9,428</u>
 Total local sources	 11,621,670

**State sources**

Unrestricted	
Renaissance zone	10,349
Restricted	
Membership - section 52	1,580,344
Special education - section 51	3,059,435
Special education - section 53	13,173
Special education - section 56	<u>261,446</u>
 Total state sources	 4,924,747

**Federal sources**

Restricted	
P.L. 94-142 flowthrough	3,475,592
P.L. 94-142 preschool incentive	127,515
P.L. 94-142 state initiated projects - EOSD	50,000
Transition service	58,000
Infant / toddler formula	<u>121,489</u>
 Total federal sources	 3,832,596

**Other sources**

Payments from other school districts	<u>217,001</u>
 Total other sources	 217,001

**Other financing sources**

Transfers from other funds	<u>513,000</u>
 Total other financing sources	 <u>513,000</u>

Total revenues	<u><u>\$ 21,109,014</u></u>
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Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2016

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**Instruction**

Added needs

Special education instruction

Salaries	\$ 3,418,748
Employee benefits	2,528,946
Purchased services	226,694
Supplies and materials	54,015
Other	281
Payments to other schools for services	797,218

Total special education instruction 7,025,902

Total added needs 7,025,902

**Support services**

Pupil services

Guidance Services

Salaries	61,726
Employee benefits	40,848
Purchased services	5,369
Supplies and materials	1,585

Total health services 109,528

Health services

Salaries	862,513
Employee benefits	547,465
Purchased services	38,870
Supplies and materials	36,910

Total health services 1,485,758

Psychological services

Salaries	374,218
Employee benefits	237,246
Purchased services	34,419
Supplies and materials	12,190

Total psychological services 658,073

Speech pathology services

Salaries	1,182,856
Employee benefits	765,140
Purchased services	53,766
Supplies and materials	21,852
Payments to other schools for services	28,192

Total speech pathology services 2,051,806

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2016

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**Support services (continued)**

Pupil services (continued)

Social worker services

Salaries	\$ 389,551
Employee benefits	271,008
Purchased services	16,699
Supplies and materials	2,382
	2,382

Total social worker services 679,640

Teacher consultant services

Salaries	209,473
Employee benefits	137,138
Purchased services	65,821
Supplies and materials	7,333
Other	400
	400

Total teacher consultant services 420,165

Other pupil services

Salaries	94,908
Employee benefits	56,292
Purchased services	12,884
Supplies and materials	1,594
	1,594

Total other pupil services 165,678

Total pupil services 5,570,648

Instructional staff

Improvement of instruction

Purchased services	7,454
Supplies and materials	3,027
	3,027

Total instructional staff 10,481

General administration

Board of education

Purchased services	48,244
Other	1,758
	1,758

Total board of education 50,002

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2016

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**Support services (continued)**

General administration (continued)

Executive administration

Salaries	\$ 155,320
Employee benefits	100,589
Purchased services	4,107
Supplies and materials	2,199
Other	160
	160

Total executive administration	262,375
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Total general administration	312,377
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School administration

Supervision and direction of instructional staff

Salaries	412,292
Employee benefits	267,752
Purchased services	21,282
Supplies and materials	26,513
Other	699
	699

Total school administration	728,538
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Business services

Fiscal services

Salaries	17,020
Employee benefits	14,160
Employee benefits	206
	206

Total Fiscal services	31,386
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Internal services

Purchased services	6,785
Supplies and materials	15,407
	15,407

Total internal services	22,192
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Other business services

Purchased services	129,611
Other	42,728
	42,728

Total other business services	172,339
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Total business services	225,917
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Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2016

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**Support services (continued)**

Operations and maintenance	
Salaries	\$ 29,707
Employee benefits	23,116
Purchased services	170,232
Supplies and materials	35,470
Capital outlay	<u>21,001</u>
Total operations and maintenance	279,526
Pupil transportation	
Contracted services	2,720,340
Payments to other schools	<u>1,024</u>
Total pupil transportation	2,721,364
Central	
Planning, research development and evaluation	
Salaries	27,125
Employee benefits	<u>16,443</u>
Total planning, research development and evaluation	43,568
Staff and personnel services	
Contracted services	<u>4,046</u>
Total staff and personnel services	4,046
Data processing	
Salaries	15,183
Employee benefits	11,686
Purchased services	<u>57,514</u>
Total data processing	<u>84,383</u>
Total central	<u>131,997</u>
Total support services	9,980,848
Community services	
Non-public school pupils	
Salaries	30,774
Employee benefits	11,210
Purchased services	<u>1,569</u>
Total community services	43,553

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2016

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<b>Payments to other governmental agencies</b>	
Payments to other schools	<u>\$ 3,355,467</u>
Total payments to other governmental agencies	3,355,467
<b>Other financing uses</b>	
Transfers out	<u>954,213</u>
Total other financing uses	<u>954,213</u>
Total expenditures	<u><u>\$ 21,359,983</u></u>

Gratiot-Isabella Regional Education Service District  
Vocational Education Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2016

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**Revenues**

Local sources	
Property taxes	\$ 2,663,069
Interest	23
Other local revenues	<u>1,400</u>
Total local sources	2,664,492
State sources	
Unrestricted	
Renaissance zone	2,565
Restricted	
Vocational education administration	<u>15,250</u>
Total state sources	17,815
Federal sources	
Restricted	
Perkins	<u>4,788</u>
Total federal sources	<u>4,788</u>
Total revenues	<u><u>\$ 2,687,095</u></u>

Gratiot-Isabella Regional Education Service District  
Vocational Education Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2016

---

**Expenditures**

Support services	
Instructional staff	
Supervision and direction of instructional staff	
Salaries	\$ 112,016
Employee benefits	69,238
Purchased services	11,552
Supplies and materials	3,021
Other	150
	<hr/>
Total instructional staff	195,977
General administration	
Board of education	
Purchased services	7,222
Business services	
Other business services	
Other	8,701
	<hr/>
Total support services	211,900
Payments to other governmental agencies	
Payments to other schools	2,055,829
	<hr/>
Total expenditures	<u><u>\$ 2,267,729</u></u>

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Revenues  
 For the Year Ended June 30, 2016

<b>Local sources</b>	
Interest	\$ 1,743
Charges for services	877,400
Rentals	20,363
Donations	60,520
Other local revenues	<u>131,060</u>
Total local sources	1,091,086
<b>Non-educational entity or political subdivision</b>	
United Way	6,316
Community Foundation	<u>29,495</u>
Total non-educational entity or political subdivision	35,811
<b>State sources</b>	
Restricted	
First Robotics	4,000
Great start ecic collaborative	215,021
Michigan model health	<u>102,762</u>
Total state sources	321,783
<b>Federal sources</b>	
Unrestricted	
Medicaid	36,636
Restricted	
Nutrition assistance	197,923
Other	<u>10,285</u>
Federal sources	244,844
<b>Other revenues</b>	
Payments from other schools	<u>214,409</u>
Total other revenues	214,409
<b>Other financing sources</b>	
Transfers in	<u>631,850</u>
Total other financing sources	<u>631,850</u>
Total revenues	<u><u>\$ 2,539,783</u></u>

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2016

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**Support services**

Pupil services	
Other pupil services	
Salaries	\$ 108,694
Employee benefits	78,095
Purchased services	82,748
Supplies and materials	16,207
Other	<u>49,056</u>
Total pupil services	334,800
Instructional staff	
Improvement of instruction	
Purchased services	20,243
Supplies and materials	38,377
Other	<u>41,300</u>
Total improvement of instruction	99,920
Educational media	
Purchased services	61
Payments to other schools	<u>3,010</u>
Total educational media	3,071
Technology assisted instruction	
Purchased services	1,875
Other	<u>3,750</u>
Total technology assisted instruction	5,625
Staff Supervision	
Salaries	101,611
Employee benefits	76,974
Purchased services	<u>9,025</u>
Total educational media	<u>187,610</u>
Total instructional staff	296,226

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2016

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**Support services (continued)**

Business services		
Other business services		
Purchased services	\$	5,052
Other		137
		5,189
Total business services		5,189
Operations and maintenance		
Salaries		32,241
Employee benefits		20,426
Purchased services		54,321
Supplies and materials		79,776
Capital outlay		499,506
		686,270
Total operations and maintenance		686,270
Central		
Planning, research, development, and evaluation		
Purchased services		1,104
Supplies and materials		1,115
		2,219
Total planning, research, development, and evaluation		2,219
Communication services		
Purchased services		275
Supplies and materials		625
		900
Total communication services		900
Staff and personnel services		
Purchased services		12,823
Other		342
		13,165
Total staff and personnel services		13,165
Data processing		
Salaries		92,363
Employee benefits		64,744
Purchased services		12,068
Supplies and materials		45,030
Other		60
		214,265
Total data processing		214,265

Gratiot-Isabella Regional Education Service District  
 Cooperative Education Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2016

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**Support services (continued)**

Central services (continued)

Pupil activities

Purchased services

\$ 92,694

Other

10,372

Total pupil activities

103,066

Total central

333,615

Total support services

1,656,100

**Community services**

Community recreation

Purchased services

30,992

Supplies and materials

4,550

Capital outlay

2,120

Other

1,729

Total community recreation

39,391

Community activities

Purchased services

1,382

Supplies and materials

1,112

Other

345

Total community activities

2,839

Care and custody of children

Purchased services

275

Total care and custody of children

275

Other community services

Salaries

11,724

Employee benefits

6,163

Purchased services

50,557

Supplies and materials

17,818

Other

3,691

Total other community services

89,953

Total community services

132,458



Gratiot-Isabella Regional Education Service District  
Cooperative Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2016

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<b>Payments to other governmental agencies</b>	
Payments to other schools	\$ 215,726
Payments to other governmental entities	<u>13,667</u>
Total payments to other governmental agencies	229,393
<b>Other financing uses</b>	
Transfers out	<u>519,733</u>
Total other financing uses	<u>519,733</u>
Total expenditures	<u><u>\$ 2,537,684</u></u>

Gratiot-Isabella Regional Education Service District  
 Funded Projects Fund  
 Statement of Revenues  
 For the Year Ended June 30, 2016

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**Revenues**

Local sources		
Interest		\$ 45
Other local revenues		16,442
		16,487
State Sources		
Restricted		
Path		34,082
		34,082
Federal sources		
Restricted		
Trade adjustment assistance		55,138
WIA/WIOA national emergency grants		46,762
WIA/WIOA adult program		729,766
WIA/WIOA dislocated worker formula grant		355,237
WIA/WIOA youth actiities		347,149
Employment services/Wagner-Peyser		177,522
Temporary assistance for needy families		214,455
Supplemental nutrition assistance program		18,447
		1,944,476
Total revenues		\$ 1,995,045

Gratiot-Isabella Regional Education Service District  
 Funded Projects Fund  
 Statement of Expenditures  
 For the Years Ended June 30, 2016

**Expenditures**

Business		
Fiscal services		
Salaries		\$ 28,530
Employee benefits		16,942
Total fiscal services		45,472
Business services		
Other business services		
Purchased services		65
Total other business services		65
Total business		45,537
Operations and maintenance		
Purchased services		195,926
Total operations and maintenance		195,926
Central		
Technology		
Salaries		1,343
Employee benefits		1,043
Total central services		2,386
Community services		
Employment programs		
Salaries		547,844
Employee benefits		392,467
Purchased services		83,345
Supplies and materials		10,827
Other		487,745
Total community services		1,522,228
Payments to other governmental agencies		
Payments to other governmental entity		197,116
Total payments to other governmental agencies		197,116
Other financing uses		
Transfers out		15,442
Total other financing uses		15,442
Total expenditures		\$ 1,978,635

Gratiot-Isabella Regional Education Service District  
Capital Projects Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2016

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**Revenues**

Local sources	
Interest	<u>\$ 549</u>

**Other financing sources**

Transfers in	<u>300,000</u>
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Total revenues	<u>\$ 300,549</u>
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**Expenditures**

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

Total expenditures	<u>\$ 84,695</u>
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Gratiot-Isabella Regional Education Service District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2016

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
<b>2009 School Improvement Bonds - \$995,000</b>					
Due October 1,					
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>\$ 486,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 486,830</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.