

Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

Financial Statements
With Supplementary Information
June 30, 2017



Gratiot-Isabella Regional Education Service District
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June 30, 2017

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To the Board of Education
Gratiot-Isabella Regional Education Service District

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 Regional Education Service District (the District), as of and for the year ended June 30, 2017, 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, 2017, 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 required supplementary information, as listed in the table of contents 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 September 29, 2017, 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 dark ink and is positioned above the typed name of the firm.

Roslund, Prestage & Company, P.C.
September 29, 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2017

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, 2017. 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 over the prior year because special education and vocational education reimbursements of \$2,596,533 were paid to local school districts after year end rather than before year end.

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 \$525,883 while current year depreciation was \$255,163. Capital assets with a book value of \$43,452 (net of depreciation) were retired/scrapped during the year.

Deferred outflows increased during the year by \$1,141,989 due primarily an increase in the changes in proportion and differences between District's employer pension contributions and the proportionate share of pension contributions overall of \$409,125, an increase in the District's pension contributions subsequent to the measurement date of \$259,824, and differences between the expected and actual experience of the pension of \$351,920. See Note 11 on page 22 for more information.

The current liabilities increased significantly from the prior year primarily due to special education and vocational education reimbursements of \$2,596,533 that were paid to local school districts after year end rather than before year end.

The increase in noncurrent liabilities is comprised primarily of the increase in net pension liability of \$1,673,185 which can vary significantly from one year to the next based on the many variables used to actuarially determine that amount each year.

The total net position for governmental activities decreased by 6.22% for the period or \$514,220. Of this decrease, \$1,673,185 was due to a change in the net pension liability which was partially offset by deferred outflows related to the pension of \$1,141,989.

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

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Current Assets	\$ 17,918,614	\$ 15,049,178	\$ 2,869,436
Noncurrent Assets	4,342,695	4,115,427	227,268
Total Assets	<u>\$ 22,261,309</u>	<u>\$ 19,164,605</u>	<u>\$ 3,096,704</u>
Deferred Outflows of Resources	<u>\$ 5,545,122</u>	<u>\$ 4,403,133</u>	<u>\$ 1,141,989</u>
Current Liabilities	\$ 6,981,963	\$ 3,981,121	\$ 3,000,842
Noncurrent Liabilities	28,636,705	27,043,040	1,593,665
Total Liabilities	<u>\$ 35,618,668</u>	<u>\$ 31,024,161</u>	<u>\$ 4,594,507</u>
Deferred Inflows of Resources	<u>\$ 972,154</u>	<u>\$ 813,747</u>	<u>\$ 158,407</u>
Investment in Capital Assets (Net of Related Debt)	\$ 3,940,560	\$ 3,628,597	\$ 311,963
Restricted	7,619,923	7,893,774	-273,851
Unrestricted	-20,344,873	-19,792,541	-552,332
Total Net Position	<u>\$ -8,784,390</u>	<u>\$ -8,270,170</u>	<u>\$ -514,220</u>

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

Charges for Services increased significantly because the Medicaid Fee for Service revenue increased by \$281,517. The District has increased services over the past year that qualify for Medicaid reimbursement.

Operating Grants and Contributions increased by \$1,185,365 for a number of reasons. First, the district received more special education funding of \$431,415 which are based on increased special education costs. Second, the Districts Michigan Works grants increased by \$325,058 as more funding was made available for these programs. Finally, the balance of the increase is the combination of many new grants and/or increased grant amounts for programs/costs including retirement funding \$173,207, CTE equipment grant \$56,603, commodities grant \$107,301, and an educator evaluation grant \$88,296.

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State Aid Not Restricted to Specific Purposes increased by \$628,451 primarily due to a change in the classification from restricted to unrestricted of Section 81 revenue of \$736,627 which is a grant to fund the general operations of the District. This increase was partially offset by a reduction in Section 56 revenue of \$65,361 which is used to equalize the special education property tax levy with other districts in the State.

Table 2
Comparative Summary of Program, General, and Total Revenues
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Charges for Services	\$ 3,195,232	\$ 2,960,927	\$ 234,305
Operating Grants and Contributions	<u>13,410,529</u>	<u>12,225,164</u>	<u>1,185,365</u>
Total Program Revenues	<u>\$ 16,605,761</u>	<u>\$ 15,186,091</u>	<u>\$ 1,419,670</u>
Property Taxes	\$14,197,395	\$14,361,161	\$ -163,766
State Aid Not Restricted to Specific Purposes	903,488	275,037	628,451
Unrestricted Interest and Investment Earnings	42,242	13,723	28,519
Other	<u>163,517</u>	<u>117,134</u>	<u>46,383</u>
Total General Revenues	<u>\$15,306,642</u>	<u>\$14,767,055</u>	<u>\$ 539,587</u>
Total Revenues	<u>\$31,912,403</u>	<u>\$29,953,146</u>	<u>\$ 1,959,257</u>

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

Instruction costs increased significantly mostly due to an expansion of some of the special education programs, increased wage rates, increased health care costs, and increased retirement costs.

Support Services increased during the year due to an expansion of special education programs, increased instructional services, increased pupil transportation costs, increased wage rates, increased health care costs, and increased retirement costs.

Community Services costs increased during the year primarily due to increased funding for Michigan Works programs.

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Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Instruction	\$7,732,361	\$7,107,345	\$ 625,016
Support Services	16,413,190	14,885,683	1,527,507
Community Services	2,010,740	1,708,154	302,586
Other	6,015,169	5,837,805	177,364
Depreciation – Unallocated	255,163	234,054	21,109
Total Expenses	<u>\$32,426,623</u>	<u>\$29,773,041</u>	<u>\$2,653,582</u>

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

Governmental Activities

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

Table 4
Comparative Summary of Net Position and Changes in Net Position
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Governmental Type Activities:			
Net Position–Beginning	\$-8,270,170	\$-8,938,373	
Prior Period Adjustment		488,098	
Net Position-Beginning Restated	<u>-8,270,170</u>	<u>-8,450,275</u>	
Increase (Decrease) in Net Position	<u>-514,220</u>	<u>180,105</u>	\$-694,325
Net Position – Ending	<u>\$-8,784,390</u>	<u>\$-8,270,170</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

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these two methods is presented on page 6. The main difference between the two models is the accounting for depreciation \$-255,163, the capitalization of fixed assets purchased during the year \$525,883, the disposal of fixed assets net of depreciation \$-43,452, the payment of principal on long-term debt \$84,695, the effects retirement on the District-Wide Financial Statements (GASB 68) of \$-689,603 and the inclusion of the net revenues and expense from the Internal Service Fund of \$63,823. 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.

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 and Section 52. State funded CTE Equipment Grant. Federal special education grants including IDEA Flow Through and IDEA Preschool.
Support Services	Local grant for Math Professional Learning Communities. State Special Education funding including Section 51 and Section 52. Other State funding including Early Literacy Teacher Coaches, Vocational Education Administration, First Robotics, Educator Evaluation, Great Start ECIC Collaborative, and Michigan Model Health. Federal grants including Title I Regional Assistance, Perkins, 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

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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 IDEA Flow Through, 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 Capital Projects Fund.

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	\$4,830,496	\$ 152,695	3.16%
Special Education	21,713,125	-538,683	-2.48%
Vocational Education	2,757,089	94,954	3.44%
Cooperative Education	2,684,808	-120,765	-4.50%
Funded Projects	2,339,317	215	0.01%
Capital Projects	301,964	217,269	71.95%
Debt Service	84,695	-0-	0.00%
Internal Service	2,669,838	63,823	2.39%

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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 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.

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Management Discussion and Analysis
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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.

V. Changes to Budget and Comparison to Actual Results

It is required by State law to adopt the original budget before the beginning of the fiscal year. For the fiscal year ended June 30, 2017 the original budget was adopted on June 9, 2016. 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, 2017 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 \$57,095 and a new Early Literacy Teacher Coaches grant for \$75,000.

Other Sources – The expanded some services that it provides to other local districts for pupil accounting, business, and technology and the budget was amended to reflect this expansion.

Support Services-Instructional Staff - The original budget was amended to reflect the new Early Literacy Teacher Coaches grant including matching for \$150,000 and the additional staff to provide the new pupil accounting services to other districts for \$80,815.

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Other Financing Sources-Transfers In – The original budget was amended to reflect an increase in the reimbursement of indirect costs from grants in other funds.

Variances between Final Budget and Actual Amounts

Support Services-Business – The full cost of the business staff is budgeted in the general fund, however, some of those costs are allocated to certain grants based upon actual hours worked on those grants.

Special Education Fund

Changes from Original Budget to Final Budget

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 \$186,599. The District also received a new reimbursement for lost personal property tax from the State of \$120,507 which wasn't included in the original budget because it couldn't be reasonably estimated. Finally, the district had to reduce the budget for the repayment of revenues for court placed students of \$57,450.

Instruction-Added Needs – The budget was increased by \$233,099 to reflect increased costs for programs that are operated by another school on the District's behalf. The budget was also increased because additional staff were hired by the District and health insurance costs increased more than anticipated.

Operating Transfers In – An operating transfer from the General Fund was increased by \$100,000 to reflect an increase in retirement funding from the State that is recorded as revenue in the General Fund.

Variances between Final Budget and Actual Amounts

Local Sources – The District received \$310,698 more Medicaid revenue than expected.

Federal Sources – The District utilized \$138,538 less in Federal IDEA funds than expected and \$67,457 less in Federal Early On funds.

Support Services-Pupil Transportation – Pupil transportation is contracted through a third party and those costs increased much more than anticipated.

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Vocational Education Fund

Changes from Original Budget to Final Budget

No individually significant variances.

Variances between Final Budget and Actual Amounts

No individually significant variances.

Cooperative Education Fund

Changes from Original Budget to Final Budget

Non-Educational Entity - The original budget was amended during the year to reflect a number of new grants that were awarded during the year including a Math Professional Learning Communities grant, Michigan Nutrition Network Summer Program Grant, and a United Way grant.

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 \$162,746 less than anticipated.

Support Services-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 \$162,746.

Support Services-Instructional – The budget was increased by \$113,189 during the year because a new Math Professional Learning Communities grant was awarded during the year.

Operating Transfers In – The budget was increased by \$200,000 to record an additional transfer in of Medicaid revenues within the Cooperative Education Fund and \$31,275 to record the General Fund matching funds for the Math Professional Learning Communities grant.

Operating Transfers Out – The budget was increased by \$200,000 to record an additional transfer out of Medicaid revenues within the Cooperative Education Fund.

Variances between Final Budget and Actual Amounts

No individually significant variances.

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Funded Projects

Changes from Original Budget to Final Budget

Federal Sources – The District approves the original budget for federal sources based upon estimates since the grant year begins on October 1st. Later when the actual grant amounts are awarded, those amounts are amended.

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 repairs and maintenance to the buildings were much less than expected so the budget was reduced during the year.

Variations between Final Budget and Actual Amounts

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

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

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

Capital Assets

A summary of the changes in the District's capital assets is presented on page 18 and 19. The significant additions and disposals are described as follows:

Land – Two lots were purchased for the building trades CTE program.

Buildings and Additions – The Mahoney building had renovations to two restrooms and the technology department. Disposed of old improvements that were renovated during the current year.

Equipment – Purchased a new copy machine, a utility vehicle, and a diesel generator. Disposed of an old piece of technology equipment.

Furniture – Purchased some refurbished cubicles for the Mahoney building. Disposed of old cubicles in the Mahoney building.

Technology Equipment – Purchased two large uninterruptable power supplies and two surge suppressors. Disposed of old laptops and data projectors.

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Construction in Process – New projects started include the replacement of the roof on the Winding Brook Conference Center and the construction of a pole barn at the Mahoney building. Projects completed during the year which were started in the previous year include the renovation of two restrooms, the installation of a diesel generator, the installation of two uninterruptable power supplies/surge suppressors, and technology department renovations.

Long-Term Debt

A summary of the changes in long-term debt is presented on page 19. Detailed notes for these long-term debts are also on page 19.

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

In the current year, the District had \$32,074,480 in revenues of which \$14,197,395 or 44% was from property taxes. Approximately 10% of the property tax revenue is derived from wind turbines located within the District. The taxable valuation of these turbines declines very quickly in the first 10 years due to depreciation. This decline in value has generally offset other increases in the property values keeping tax revenues flat in recent years. We expect this trend to continue until the wind turbines are fully depreciated in 2023. In 2018, construction of 68 new wind turbines will begin which will give the district a boost in property taxes for a year followed by the same depreciation that the District is experiencing with the existing wind turbines.

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.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



Gratiot-Isabella Regional Education Service District
Statement of Net Position
June 30, 2017

Assets

Current assets	
Cash and investments	\$ 15,035,561
Accounts receivable, net	17,306
Prepaid expenses	459,694
Due from other governmental units	2,406,053
Total current assets	17,918,614
Noncurrent assets	
Capital assets not being depreciated	214,589
Capital assets being depreciated, less accumulated depreciation	4,128,106
Total noncurrent assets	4,342,695
Total assets	22,261,309

Deferred outflows of resources

Deferred outflow - related to pension	5,545,122
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Liabilities

Current liabilities	
Accounts payable	4,262,703
Salaries payable	528,364
Unearned revenues	496,866
Accrued expenses	1,148,854
Incurred but not reported claims (IBNR)	446,140
Compensated absences, due within one year	14,341
Long-term obligations, due within one year	84,695
Total current liabilities	6,981,963
Non-current liabilities	
Long-term obligations, due beyond one year	317,440
Compensated absences, due beyond one year	81,265
Net pension liability	28,238,000
Total non-current liabilities	28,636,705
Total liabilities	35,618,668

Deferred inflows of resources

Deferred inflow - related to pension	84,320
Deferred inflow - 147c allocation	887,834
Total deferred inflows of resources	972,154

Net position

Net investment in capital assets	3,940,560
Restricted for:	
Special Education	3,739,311
Vocational Education	952,652
Cooperative Education	1,576,709
Funded Projects	5,661
Capital Projects	1,345,495
Debt Service	94
Unrestricted	(20,344,873)
Total net position	\$ (8,784,390)

Gratiot-Isabella Regional Education Service District
Statement of Activities
For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues		Net Revenues (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 7,732,361	\$ -	\$ 3,202,128	\$ (4,530,233)
Support services	16,413,190	3,195,232	7,652,116	(5,565,842)
Community service	2,010,740	-	2,556,285	545,545
Other	6,015,169	-	-	(6,015,169)
Depreciation - unallocated	255,163	-	-	(255,163)
Totals	\$ 32,426,623	\$ 3,195,232	\$ 13,410,529	(15,820,862)
General revenues:				
Property taxes				14,197,395
State aid not restricted to specific purposes				903,488
Unrestricted interest and investment earnings				42,242
Other				163,517
Total general revenues				15,306,642
Change in net position				(514,220)
Net position - beginning				(8,270,170)
Net position - ending				\$ (8,784,390)

FUND FINANCIAL STATEMENTS



Gratiot-Isabella Regional Education Service District
Balance Sheet - Governmental Funds
June 30, 2017

	Major Funds			Non-Major Funds			Total Governmental Funds	
	General	Special Education	Vocational Education	Cooperative Education	Funded Projects	Capital Projects		Debt Service
Assets								
Cash and investments	\$ 2,274,607	\$ 6,958,998	\$ 2,271,218	\$ 1,617,450	\$ 20,150	\$ 1,747,630	\$ 94	\$ 14,890,147
Accounts receivable, net	5,215	240	-	11,851	-	-	-	17,306
Prepaid expenses	-	23,495	-	-	17,083	-	-	40,578
Due from other funds	359,446	-	918	-	-	-	-	360,364
Due from internal service fund	193,019	-	-	-	-	-	-	193,019
Due from other governmental units	428,539	1,499,077	22,183	129,563	326,691	-	-	2,406,053
Total assets	\$ 3,260,826	\$ 8,481,810	\$ 2,294,319	\$ 1,758,864	\$ 363,924	\$ 1,747,630	\$ 94	\$ 17,907,467
Liabilities								
Accounts payable	\$ 47,802	\$ 2,863,022	\$ 1,338,388	\$ 9,028	\$ 4,462	\$ -	\$ -	\$ 4,262,702
Salaries payable	47,213	464,269	3,279	4,447	9,156	-	-	528,364
Due to other funds	-	118,508	-	20,171	221,685	-	-	360,364
Unearned revenues	107,634	254,164	-	135,068	-	-	-	496,866
Accrued expenses	10,495	1,019,041	-	13,441	105,877	-	-	1,148,854
Total liabilities	213,144	4,719,004	1,341,667	182,155	341,180	-	-	6,797,150
Fund balance								
Non-spendable	-	23,495	-	-	17,083	-	-	40,578
Restricted	-	3,739,311	952,652	1,576,709	5,661	1,345,495	94	7,619,922
Committed:								
Future bond payments	-	-	-	-	-	402,135	-	402,135
Undesignated	3,047,682	-	-	-	-	-	-	3,047,682
Total fund balance	3,047,682	3,762,806	952,652	1,576,709	22,744	1,747,630	94	11,110,317
Total liabilities and fund balance	\$ 3,260,826	\$ 8,481,810	\$ 2,294,319	\$ 1,758,864	\$ 363,924	\$ 1,747,630	\$ 94	\$ 17,907,467

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, 2017

Total fund balance - governmental funds	\$ 11,110,317
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	6,885,414
Deduct: Accumulated depreciation	(2,542,719)
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	(95,606)
Add: Deferred outflow - related to pension	5,545,122
Deduct: Net pension liability	(28,238,000)
Deduct: Deferred inflow - related to pension	(84,320)
Deduct: Deferred inflow - 147c allocation	(887,834)
Long-term obligations	
Deduct: 2009 improvement bonds	(402,135)
Internal Service Fund	
Deduct: Internal service assets and liabilities in the statement of net position	(74,629)
Net position of governmental activities	<u>\$ (8,784,390)</u>

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	Major Funds			Non-Major Funds				Total Governmental Funds
	General	Special Education	Vocational Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	
Revenues								
Local sources	\$ 1,020,844	\$ 11,870,947	\$ 2,679,725	\$ 998,937	\$ 3,771	\$ 1,964	\$ -	\$ 16,576,188
Non-educational entity	-	-	-	209,079	-	-	-	209,079
State sources	2,006,781	5,404,356	72,295	365,932	66,012	-	-	7,915,376
Federal sources	6,599	3,687,716	5,069	252,009	2,269,534	-	-	6,220,927
Other sources	823,853	137,106	-	191,951	-	-	-	1,152,910
Total revenues	3,858,077	21,100,125	2,757,089	2,017,908	2,339,317	1,964	-	32,074,480
Expenditures								
Instruction								
Added needs	-	7,558,563	-	-	-	-	-	7,558,563
Total instruction	-	7,558,563	-	-	-	-	-	7,558,563
Support services								
Pupil	94,508	6,016,353	-	312,920	-	-	-	6,423,781
Instructional staff	815,109	30,059	197,693	492,550	-	-	-	1,535,411
General administration	460,463	312,977	3,642	-	7,250	-	-	784,332
School administration	-	743,769	-	-	-	-	-	743,769
Business	1,085,078	219,593	11,995	6,857	59,432	-	-	1,382,955
Operation and maintenance	280,903	257,689	-	749,429	261,194	-	-	1,549,215
Pupil transportation	-	2,947,392	-	-	-	-	-	2,947,392
Central	861,840	132,279	-	253,904	5,661	-	-	1,253,684
Other support services	-	-	-	11,890	-	-	-	11,890
Total support services	3,597,901	10,660,111	213,330	1,827,550	333,537	-	-	16,632,429
Community services	-	50,096	-	226,117	1,701,726	-	-	1,977,939
Debt service	-	-	-	-	-	-	84,695	84,695
Other	-	3,033,990	2,448,805	228,535	303,839	-	-	6,015,169
Total expenditures	3,597,901	21,302,760	2,662,135	2,282,202	2,339,102	-	84,695	32,268,795
Revenues over (under) expenditures	260,176	(202,635)	94,954	(264,294)	215	1,964	(84,695)	(194,315)
Other financing sources (uses)								
Transfers in	972,419	613,000	-	666,900	-	300,000	84,695	2,637,014
Transfers (out)	(1,079,900)	(949,048)	-	(523,371)	-	(84,695)	-	(2,637,014)
Net change in fund balances	152,695	(538,683)	94,954	(120,765)	215	217,269	-	(194,315)
Fund balance - beginning	2,894,987	4,301,489	857,698	1,697,474	22,529	1,530,361	94	11,304,632
Fund balance - ending	\$ 3,047,682	\$ 3,762,806	\$ 952,652	\$ 1,576,709	\$ 22,744	\$ 1,747,630	\$ 94	\$ 11,110,317

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, 2017

Net change in fund balances - total governmental funds \$ (194,315)

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

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

Add:	Capital outlay	525,883
Deduct:	Depreciation expense	(255,163)
Deduct:	Loss on disposal of capital assets	(43,452)

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.

Deduct:	Change in accrual for compensated absences	(6,088)
Add:	Change in deferred outflow - related to pension	1,141,989
Deduct:	Change in net pension liability	(1,673,185)
Add:	Change in deferred inflow - related to pension	3,670

Revenue in support of pension contributions made subsequent to the measurement date.

Deduct:	Change in deferred inflow - 147c allocation	(162,077)
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Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add:	Principal payment on 2009 improvement bonds	84,695
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Include revenues and expenses from the internal service fund in the governmental activities of the statement of activities.

Add:	Net revenues and expenses	<u>63,823</u>
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Change in net position of governmental activities \$ (514,220)

Gratiot-Isabella Regional Education Service District
Statement of Net Position - Proprietary Fund
June 30, 2017

	Internal Service Fund
Assets	
Current assets	
Cash and investments	\$ 145,414
Prepaid expenses	419,116
Total assets	<u>564,530</u>
Liabilities	
Current liabilities	
Incurred but not reported claims (IBNR)	446,140
Due to general fund	193,019
Total liabilities	<u>639,159</u>
Net position	
Unrestricted	<u>\$ (74,629)</u>

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Year Ended June 30, 2017

	Internal Service Fund
Operating revenues	
Employer health and dental premiums	\$ 2,669,762
Total operating revenues	2,669,762
Operating expenses	
Medical and dental claims	2,375,197
Purchased services	209,218
Other	21,600
Total operating expenses	2,606,015
Operating income	63,747
Non operating revenues	
Interest income	76
Net change in net position	63,823
Net position - beginning	(138,452)
Net position - ending	\$ (74,629)

Gratiot-Isabella Regional Education Service District
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2017

	Internal Service Fund
Cash flows from operating activities	
Employer health and dental premiums	\$ 2,669,762
Payment of medical and dental claims	(2,287,562)
Payment of purchased services	(209,218)
Other payments	(21,600)
Net cash from operating activities	151,382
Cash flows from investing activities	
Interest received	76
Cash flows from non-capital financing activities	
Payments from other funds	(13,481)
Net change in cash and cash equivalents	137,977
Cash and cash equivalents - beginning	7,437
Cash and cash equivalents - ending	\$ 145,414
 Reconciliation of operating income to net cash provided by operating activities:	
Operating Income	\$ 63,747
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Incurred but not reported claims (IBNR)	87,635
Net cash provided by operating activities	\$ 151,382

Gratiot-Isabella Regional Education Service District
Statement of Fiduciary Net Position
June 30, 2017

Assets

Cash	\$ 30,129
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Total assets	30,129
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Liabilities

Due to student activities	30,129
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Total liabilities	30,129
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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 generally accepted accounting principles (GAAP) 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. All amounts shown are in dollars.

Reporting Entity

The District is governed by Board of Education members which have the responsibility and control over all activities related to education within the District. 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 District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America.

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.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds. Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following major governmental funds:

- The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its Special Education and Vocational Education in the special revenue funds.

The District reports the following non-major governmental funds:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its Cooperative Education and Funded Projects in the special revenue funds.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* accounts for the receipt of bond proceeds, transfers from the general fund (as applicable), and the acquisition of fixed assets or construction of capital projects.

Additionally, the government reports the following fund types:

- 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.

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

- The Superintendent submits to the 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.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2017

- Prior to July 1, the budget is legally adopted by 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, are noted in the required supplementary information section.
- Transfers may be made for 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 Board.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

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

Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

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

Inventory

Inventory are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Due from/to other funds

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their 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 assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2017

capital assets.

Land and construction in progress if any are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings and Improvements	5 - 50
Equipment	5 – 25
MMNet System	20
Technology Equipment	5 – 7
Furniture	7

Deferred Outflows

In addition to assets, the statement of net 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/expenditure) until then. The District has the following items that qualify for reporting in this category:

- Related to pension- A deferred outflow is recognized for pension related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an 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 the following items that qualifies for reporting in this category:

- Related to pension - Future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.
- 147c allocation - Restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

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 Government-wide financial statements, and revenue is recognized.

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.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2017

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Defined Benefit Plan

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 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.

Net Position and Fund Balances

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

Net Position – Restrictions

Net position in the government-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.

Fund Balance

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 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.

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 penalties and interest may be assessed by the collecting entity.

The District levied the following amounts per \$1,000 of assessed valuation. The District levied 0.2640 mills for

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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

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. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

Use of 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.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

At June 30th, the carrying amount of the District's cash, cash equivalents and investments were as follows:

Description	Amount
Petty Cash	500
Checking, Savings, & Money Market Accounts	5,909,328
Investments - MILAF	9,125,733
Total	15,035,561

The District voluntarily invests certain excess funds in external pooled investment funds which included 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. MILAF reports as of June 30, 2017, the fair value of the District's investments is the same as the value of the pool shares.

The other pooled investment fund is Michigan Class. Michigan Class is considered a local government investment pool of "qualified" investments for Michigan School Districts. Michigan Class is not regulated nor is it registered with the SEC. Michigan Class reports as of year-end, the fair value of the District's investments is the same as the value of the pooled shares.

MILAF, as defined by the GASB, are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures. Michigan Class is recorded at fair value and are subject to fair value disclosures.

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

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the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

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

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

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. As of June 30, 2017, \$6,128,382 of the District's bank balance of \$6,628,382 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The fiduciary fund balances are not included in the above balances.

Custodial credit risk – investments: For an investment, this 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 pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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.

Michigan Class investments are subject to the fair value measurement and are level 2. 1 day maturity equals 0.0027, one year equals 1.00

Investment Type	Fair Value	Weighted Average Maturity	Standard & Poor's Rating	%
MILAF External Investment pool-Cash Mgmt Class	7,991,304	0.2295 yrs	AAAm	87.52%
MILAF External Investment pool-MIMAX	<u>1,140,009</u>	0.2295 yrs	AAAm	12.48%
Total	<u>9,131,313</u>			

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

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivable and payable shown on the fund financial statements as of June 30th, are as follows:

Receivable fund	Amount	Payable fund	Amount
General Fund	359,446	Special Education	118,507
Vocational Education	918	Cooperative Education	20,171
		Funded Projects	221,685
Total	360,364	Total	360,364

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Description	Amount
State aid	1,061,202
Federal grants and other pass-through agencies	909,600
Other	435,251
Total	2,406,053

No allowance for doubtful accounts is considered necessary.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	139,955	43,204	-	183,159
Construction in process	23,112	31,430	23,112	31,430
Total capital assets not being depreciated	163,067	74,634	23,112	214,589
Capital assets being depreciated				
Buildings and Improvement	5,653,911	228,173	17,758	5,864,326
Equipment	213,089	103,447	7,000	309,536
Furniture	63,531	18,746	23,991	58,286
MMNet System	74,620	-	-	74,620
Technology Equip.	300,908	100,884	37,733	364,058
Total capital assets being depreciated	6,306,059	451,249	86,482	6,670,825
Accumulated depreciation				
Buildings and Improvement	(1,948,186)	(189,841)	(13,644)	(2,124,383)
Equipment	(123,846)	(22,014)	(7,000)	(138,860)
Furniture	(25,121)	(5,178)	(7,765)	(22,534)
MMNet System	(67,158)	(3,731)	-	(70,889)
Technology Equip.	(189,387)	(34,398)	(37,733)	(186,052)

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Total accumulated depreciation	(2,353,699)	(255,163)	(66,142)	(2,542,719)
Net capital assets being depreciated	3,952,360	196,086	20,340	4,128,106
Net capital assets	4,115,427	270,720	43,452	4,342,695

Depreciation for the year ended June 30, 2017 totaled \$255,163. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses as of year-end include amounts due for accrued wages, retirement, FICA, employee benefit insurances, and termination benefits (if any). Accrued wages represent the remaining balance on teacher contracts to be paid during the summer and other salaries and wages earned as of June 30th.

NOTE 7 - DEBT

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.

Summary of Debt Transactions

The changes in debt during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance	Due within one year
Long-term debt					
Compensated abs	89,517	19,517	(13,428)	95,606	14,341
2009 School Improv Bonds	486,830	-	(84,695)	402,135	84,695
Total long-term debt	576,347	19,517	(98,123)	497,741	99,036

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2017, are shown in the *Schedule of Long-term Debt*.

NOTE 8 - NET INVESTMENT IN CAPITAL ASSETS

As of June 30th, the composition of net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	214,589
Capital asset being depreciated, net	4,128,106
Capital related general obligation bonds	(402,135)
Net investment in capital assets	3,940,560

NOTE 9 - OPERATING LEASES

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 leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. Lease expense for the fiscal year was approximately \$204,996.

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The future minimum lease obligations as of:

Year Ending June 30	Amount
2018	204,996
2019	204,996
2020	51,249

NOTE 10 - 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 11 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) (System) 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. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpers-cafr>.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPERS is as follows:

<u>Plan name</u>	<u>Plan Type</u>	<u>Plan status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

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

Pension Reform 2012

September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

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October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - September 30, 2017	15.27% - 19.03%

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Required and actual contributions to the plan for the years ended June 30, 2017 and 2016 were \$2,861,725 and \$2,640,997 respectively. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB). The District UAAL/147c contributions for the years ended June 30, 2017 and 2016 were \$887,834 and \$725,757 respectively.

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

Pension Liabilities

At June 30, 2017, the District reported a liability of \$28,238,000 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating districts, actuarially determined. At September 30, 2016 and 2015, the District's proportion is shown in the table below.

MPSERS (Plan) Non-university employers	September 30, 2016	September 30, 2015
Total Pension Liability	67,917,445,078	66,312,041,902
Plan Fiduciary Net Position	42,968,263,308	41,887,015,147
Net Pension Liability	24,949,181,763	24,425,026,755
Proportionate share	0.1131821%	0.1087606%
Net Pension Liability for the District	28,238,000	26,564,815

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

For the year ended June 30, 2017 and 2016, the District recognized pension expense of approximately \$3,328,954 and \$2,660,363 respectively. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate, these amounts have been recorded as a deferred outflow as of June 30, 2017.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	351,920	(66,925)
Changes of assumptions	441,479	-
Net difference between projected and actual plan investments earnings	469,315	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,951,409	(17,395)
District's contributions subsequent to the measurement date	2,330,999	-
Total	5,545,122	(84,320)

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\$2,330,999, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Description	Amount
June 30, 2018	859,893
June 30, 2019	822,982
June 30, 2020	1,198,733
June 30, 2021	248,195

Actuarial Assumptions

Investment rate of return - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 2.5%

Mortality assumptions – RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments - The rate was **8% (7% Pension Plus Plan)** net of investment and administrative expenses was determined using a 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%

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

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Discount rate - The discount rate used to measure the total pension liability was **8%** (7% for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus 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 point higher than the current rate:

	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	36,363,437	28,238,000	21,387,476

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. At June 30, 2017, the District reported a payable of \$341,602 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017, consisting of pension contribution payable plus any other amounts owed to the pension plan including the UAAL payments for July and August 2017.

Benefit Provisions - Other Postemployment

Introduction

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. Beginning fiscal year 2013, it is 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.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a

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portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District's contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$619,944, \$546,434, and \$727,022, respectively.

NOTE 12 - TRANSFERS

During the year the following transfers were made between funds:

- Transfer of \$613,000 from general fund to special education fund is composed of \$148,000 for pre-proposal A FICA and Retirement. The other \$465,000 is the special education fund's share of the section 147c pension UAAL funding.
- The transfer of \$166,900 from the general fund to the cooperative education fund is to make up shortfall in projects/programs including operation of Winding Brook \$30,000, matching funds for the Math PLC grant of \$31,275, matching funds for the Robotics team of \$1,625, instructional workshop services of \$86,000, matching funds for Michigan Model grant of \$5,000, and operation of forest hill of \$13,000.
- The transfer of \$500,000 within the cooperative education fund is to set aside funds for current maintenance projects of \$500,000.
- The transfer of \$300,000 from the general fund to the capital projects funds is to accumulate funds for large capital projects in the future (rather than issuing bonds).
- The transfer of \$949,048 from the special education fund to the general fund is to reimburse the general fund for services provided to the special education fund including business services, technology services, operation/maintenance services, and other administrative services.
- The transfers of \$23,371 from the cooperative education fund to the general funds are to reimburse the general fund for indirect costs on a number of grants.
- The transfer of \$84,695 from the capital projects fund to the debt fund was for the purpose of making a debt payment for the year.

NOTE 13 - SELF-INSURANCE LIABILITY

The District maintains a self-insurance program for employee medical, pharmacy and dental insurance claims. The District also maintains insurance coverage in these areas for claims in excess of the self-insured retentions. There were no significant changes in insurance coverage from coverage in the prior year. The District has a stop-loss agreement that limits its exposure to \$35,000 per contract per year. 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 insurance claims at June 30, 2017 are adequate to reflect all claims for events that have occurred through that date. The lag payout depends on the nature of the claim: medical – 0.7 months, pharmacy – 0.1 months, dental claims – 0.5 months, administrative fee – 2.0 months and stop loss fee – 3.0 months; therefore, all of the June 30, 2017 balance

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2017

of \$244,842 is expected to be paid the following year.

NOTE 14 - TAX ABATEMENTS

Effective for the year ended June 30, 2017 the District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Amount
Bethany Township	2,721
City of Alma	46,161
City of Ithaca	10,038
City of Mt. Pleasant	105,462
City of St. Louis	9,740
Coe Township	1,368
Elba Township	10,159
Fulton Township	1,604
Isabella Township	542
Pine River Township	7,803
Union Township	73,432
Wheeler Township	1,769
Total	270,799

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

NOTE 15 - JOINT VENTURE

The District is a member of the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase an interest in various communication equipment and services as well as pay for annual administrative cost incurred by Gratiot-Isabella RESD, the administrative agent. 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. 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

Additional information on MMNET, including separate financial statements, is available by contacting the fiscal agent at Gratiot-Isabella Regional Education Service District, 1131 East Center Street, Ithaca, Michigan 48847.

NOTE 16 – RELATED PARTIES

Gratiot-Isabella RESD is serving as the operating and fiscal agent of MMNet. There is no written agreement between GIRESD and MMNet for these services. GIRESD has been given control and authority over the day-to-day engineering, acquisition, installation, and management of MMNet. Revenue received from members included \$453,853 to maintain the fiber network and the CIPA filter. Expenses paid to GIRESD included \$177,180 for technology staff to maintain and operate fiber network, servers and filter, and \$44,000 for business services, insurance and use of facilities.

NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, establishes requirements for governments that provide their employees with OPEB through a trust and replaces *GASB Statement No. 45* for those government employers. The most significant change is that governments will now be required to recognize their net OPEB liability, which is the difference between the total OPEB liability (the portion of the present value of projected benefit payments that is attributed to past periods) and the value of OPEB assets available to pay pension benefits. Additional note disclosure and the first two RSI schedules from *GASB 74* will be required. This requirement also applies to cost sharing, multiple-employer plans and plans that are not administered through a trust. Unlike pension plans, which most governments have been funding for quite a while, many OPEB plans are severely underfunded, and the liability to be recorded will be significant.

The statement mirrors the pension requirements of *GASB 68*. Most changes in the net OPEB liability will be included in current period expense. Other components, such as changes in economic assumptions, will be recognized over a closed period equal to the expected remaining service lives of all employees that are provided benefits. Differences between expected and actual investment rate of return will be recognized in expense over a closed five-year period. The pronouncement will be effective for years ending June 30, 2018.

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

REQUIRED SUPPLEMENTARY INFORMATION



Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 956,909	\$ 1,008,295	\$ 1,020,844	\$ 12,549
State sources	1,915,481	2,039,416	2,006,781	(32,635)
Federal sources	-	9,635	6,599	(3,036)
Other sources	715,748	810,210	823,853	13,643
Total revenues	3,588,138	3,867,556	3,858,077	(9,479)
Expenditures				
Support services				
Pupil	93,726	100,697	94,508	6,189
Instructional staff	638,377	860,225	815,109	45,116
General administration	502,908	497,999	460,463	37,536
Business	1,125,953	1,191,207	1,085,078	106,129
Operation and maintenance	327,873	298,167	280,903	17,264
Central	829,488	879,910	861,840	18,070
Total expenditures	3,518,325	3,828,205	3,597,901	230,304
Revenues over (under) expenditures	69,813	39,351	260,176	220,825
Other financing sources (uses)				
Transfers in	905,262	1,002,333	972,419	(29,914)
Transfers (out)	(1,044,000)	(1,079,900)	(1,079,900)	-
Net change in fund balance	(68,925)	(38,216)	152,695	190,911
Fund balance - beginning	2,894,987	2,894,987	2,894,987	-
Fund balance - ending	\$ 2,826,062	\$ 2,856,771	\$ 3,047,682	\$ 190,911

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Special Education Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 11,553,290	\$ 11,608,959	\$ 11,870,947	\$ 261,988
State sources	5,159,840	5,404,356	5,404,356	-
Federal sources	3,888,317	3,893,711	3,687,716	(205,995)
Other sources	200,000	133,363	137,106	3,743
Total revenues	20,801,447	21,040,389	21,100,125	59,736
Expenditures				
Instruction				
Added needs	7,194,797	7,691,655	7,558,563	133,092
Total instruction	7,194,797	7,691,655	7,558,563	133,092
Support services				
Pupil	6,095,667	6,142,380	6,016,353	126,027
Instructional staff	12,094	70,884	30,059	40,825
General administration	313,809	318,208	312,977	5,231
School administration	754,228	736,353	743,769	(7,416)
Business	256,806	220,952	219,593	1,359
Operation and maintenance	261,969	261,130	257,689	3,441
Pupil transportation	2,607,700	2,727,300	2,947,392	(220,092)
Central	138,407	132,861	132,279	582
Total support services	10,440,680	10,610,068	10,660,111	(50,043)
Community Services	45,000	54,241	50,096	4,145
Other	3,000,000	3,019,945	3,033,990	(14,045)
Total expenditures	20,680,477	21,375,909	21,302,760	73,149
Revenues over (under) expenditures	120,970	(335,520)	(202,635)	132,885
Other financing sources (uses)				
Transfers in	513,000	613,000	613,000	-
Transfers (out)	(977,501)	(972,700)	(949,048)	23,652
Net change in fund balance	(343,531)	(695,220)	(538,683)	156,537
Fund balance - beginning	4,301,489	4,301,489	4,301,489	-
Fund balance - ending	\$ 3,957,958	\$ 3,606,269	\$ 3,762,806	\$ 156,537

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Vocational Education Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 2,677,210	\$ 2,690,120	\$ 2,679,725	\$ (10,395)
State sources	17,091	72,294	72,295	1
Federal Sources	4,500	5,069	5,069	-
Total revenues	2,698,801	2,767,483	2,757,089	(10,394)
Expenditures				
Support services				
Instructional Staff	200,443	198,885	197,693	1,192
General administration	5,000	7,500	3,642	3,858
Business	10,100	10,100	11,995	(1,895)
Total support services	215,543	216,485	213,330	3,155
Other	2,450,000	2,509,316	2,405,602	103,714
Site acquisition	28,000	43,146	43,203	(57)
Total expenditures	2,693,543	2,768,947	2,662,135	106,812
Revenues over (under) expenditures	5,258	(1,464)	94,954	96,418
Fund balance - beginning	857,698	857,698	857,698	-
Fund balance - ending	<u>\$ 862,956</u>	<u>\$ 856,234</u>	<u>\$ 952,652</u>	<u>\$ 96,418</u>

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Cooperative Education Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 874,714	\$ 929,416	\$ 998,937	\$ 69,521
Non-educational entity	7,000	258,057	209,079	(48,978)
State sources	379,896	372,546	365,932	(6,614)
Federal sources	536,012	267,009	252,009	(15,000)
Other sources	191,426	205,740	191,951	(13,789)
Total revenues	1,989,048	2,032,768	2,017,908	(14,860)
Expenditures				
Support services				
Pupil	501,237	334,682	312,920	21,762
Instructional staff	298,912	506,045	492,550	13,495
Business	6,800	6,800	6,857	(57)
Operation and maintenance	794,062	798,790	749,429	49,361
Central	369,928	272,305	253,904	18,401
Other	-	-	11,890	(11,890)
Total support services	1,970,939	1,918,622	1,827,550	91,072
Community services	219,664	221,487	226,117	(4,630)
Other	246,882	227,434	228,535	(1,101)
Total expenditures	2,437,485	2,367,543	2,282,202	85,341
Revenues over (under) expenditures	(448,437)	(334,775)	(264,294)	70,481
Other financing sources (uses)				
Transfers in	430,225	666,900	666,900	-
Transfers (out)	(346,219)	(523,976)	(523,371)	605
Net change in fund balance	(364,431)	(191,851)	(120,765)	71,086
Fund balance - beginning	1,697,474	1,697,474	1,697,474	-
Fund balance - ending	\$ 1,333,043	\$ 1,505,623	\$ 1,576,709	\$ 71,086

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Funded Projects Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 45	\$ 3,787	\$ 3,771	\$ (16)
State sources	-	54,352	66,012	11,660
Federal sources	2,813,070	2,617,716	2,269,534	(348,182)
Total revenues	2,813,115	2,675,855	2,339,317	(336,538)
Expenditures				
Support services				
General administration	-	12,438	7,250	5,188
Business	92,797	66,306	59,432	6,874
Operation and maintenance	391,196	288,564	261,194	27,370
Central	14,318	5,543	5,661	(118)
Total support services	498,311	372,851	333,537	39,314
Community services	2,006,164	1,979,841	1,701,726	278,115
Other	308,625	322,927	303,839	19,088
Total expenditures	2,813,100	2,675,619	2,339,102	336,517
Revenues over (under) expenditures	15	236	215	(21)
Fund balance - beginning	22,529	22,529	22,529	-
Fund balance - ending	\$ 22,544	\$ 22,765	\$ 22,744	\$ (21)

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

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

Description	Plan year Sept 30, 2016	Plan year Sept 30, 2015	Plan year Sept 30, 2014
Reporting unit's proportion of net pension liability (%)	0.1131821%	0.1087606%	0.10049205%
Reporting unit's proportionate share of net pension liability	\$ 28,238,000	\$ 26,564,815	\$ 22,134,885
Reporting unit's covered employee payroll	\$ 9,673,069	\$ 9,086,611	\$ 8,546,653
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	291.92%	292.35%	258.99%
Plan fiduciary net position as a percentage of total pension liability	63.01%	62.92%	66.20%

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

Schedule of the Reporting Unit's Contributions

Description	Fiscal year June 30, 2016	Fiscal year June 30, 2016	Fiscal year June 30, 2015
Statutorily required contributions	\$ 2,797,974	\$ 2,592,117	\$ 1,951,434
Contributions in relation to statutorily required contributions	\$ 2,797,974	\$ 2,592,117	\$ 1,951,434
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Reporting unit's covered-employee payroll	\$ 10,139,133	\$ 9,489,744	\$ 8,972,446
Contributions as a percentage of covered-employee payroll	27.60%	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 SUPPLEMENTARY INFORMATION



Gratiot-Isabella Regional Education Service District
General Fund
Statement of Revenues
For the Year Ended June 30, 2017

Local sources	
Property taxes	\$ 707,384
Interest	9,769
Other local revenues	303,691
Total local sources	<u>1,020,844</u>
State sources	
Grant-in-aid from State	1,998,896
State payment in lieu of tax	7,885
Total state sources	<u>2,006,781</u>
Federal Sources	
Grant-aid from federal governmental	<u>6,599</u>
Total federal sources	6,599
Incoming transfers	
Payments received from other public schools	823,853
Other financing sources	
Transfers from other funds	<u>972,419</u>
Total other financing sources	<u>1,796,272</u>
Total general fund revenues and other financing sources	<u><u>\$ 4,830,496</u></u>

Gratiot-Isabella Regional Education Service District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2017

Support services

Pupil	
Salaries	\$ 50,021
Employee benefits	40,892
Purchased services	3,518
Supplies and materials	77
Total pupil	94,508
Instructional staff	
Salaries	386,172
Employee benefits	280,555
Purchased services	140,498
Supplies and materials	5,267
Other	2,617
Total instructional staff	815,109
General administration	
Salaries	215,778
Employee benefits	134,017
Purchased services	91,191
Supplies and materials	3,389
Other	16,088
Total general administration	460,463
Business	
Salaries	572,064
Employee benefits	406,294
Purchased services	36,416
Repairs and maintenance	2,000
Supplies and materials	60,379
Capital outlay	2,426
Other	5,499
Total business	1,085,078
Operations and maintenance	
Salaries	52,725
Employee benefits	36,367
Purchased services	15,726
Repairs and maintenance	113,846
Supplies and materials	59,833
Capital outlay	2,406
Total operations and maintenance	280,903

Gratiot-Isabella Regional Education Service District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2017

Support services (continued)

Central	
Salaries	\$ 296,133
Employee benefits	196,414
Purchased services	217,716
Supplies and materials	63,904
Capital outlay	14,032
Other	73,641
Total central	<u>861,840</u>
Total support services	3,597,901
Other financing uses	
Transfers out to other funds	<u>1,079,900</u>
Total other financing uses	<u>1,079,900</u>
Total expenditures	<u><u>\$ 4,677,801</u></u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Revenues
For the Year Ended June 30, 2017

Local sources	
Property taxes	\$ 10,810,517
Interest	24,382
Charges for services	1,011,692
Other local revenues	24,356
Total local sources	<u>11,870,947</u>
State sources	
Unrestricted	
Renaissance zone	3,397
State payment in lieu of tax	120,507
Restricted	
Membership - section 52	1,579,488
Special education - section 51	3,547,100
Special education - section 53	(42,221)
Special education - section 56	196,085
Total state sources	<u>5,404,356</u>
Federal sources	
Restricted	
P.L. 94-142 flowthrough	3,396,814
P.L. 94-142 preschool incentive	131,107
P.L. 94-142 state initiated projects - EOSD	50,000
Transition service	58,000
Infant / toddler formula	51,795
Total federal sources	<u>3,687,716</u>
Other sources	
Payments from other school districts	137,106
Total other sources	<u>137,106</u>
Other financing sources	
Transfers from other funds	613,000
Total other financing sources	<u>613,000</u>
Total revenues	<u><u>\$ 21,713,125</u></u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2017

Instruction

Added needs	
Salaries	\$ 3,601,307
Employee benefits	2,809,660
Purchased services	245,738
Supplies and materials	43,572
Capital outlay	7,130
Payments to other schools for services	851,156
Total added needs	<u>7,558,563</u>

Support services

Pupil services	
Salaries	3,356,351
Employee benefits	2,267,574
Purchased services	208,793
Supplies and materials	62,892
Capital outlay	20,445
Other	100,298
Total pupil services	<u>6,016,353</u>

Instructional staff

Salaries	6,947
Employee benefits	5,571
Purchased services	14,381
Supplies and materials	3,160
Total instructional staff	<u>30,059</u>

General administration

Salaries	158,804
Employee benefits	115,299
Purchased services	34,965
Supplies and materials	1,647
Other	2,262
Total general administration	<u>312,977</u>

School administration

Salaries	397,639
Employee benefits	304,718
Purchased services	17,969
Supplies and materials	23,348
Other	95
Total school administration	<u>743,769</u>

Business services

Salaries	18,750
Employee benefits	16,100
Purchased services	109,294
Repairs and maintenance	8,000
Supplies and materials	17,949
Other	49,500
Total business services	<u>219,593</u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2017

Support services (continued)	
Operations and maintenance	
Salaries	\$ 24,763
Employee benefits	17,889
Purchased services	29,342
Repairs and maintenance	147,517
Supplies and materials	38,178
Total operations and maintenance	<u>257,689</u>
 Pupil transportation	
Contracted services	2,946,184
Payments to other schools for services	1,208
Total pupil transportation	<u>2,947,392</u>
 Central	
Salaries	43,909
Employee benefits	28,364
Purchased services	60,006
Total central	<u>132,279</u>
 Total support services	 10,660,111
 Community services	
Non-public school pupils	
Salaries	33,644
Employee benefits	14,975
Purchased services	1,477
Total community services	<u>50,096</u>
 Payments to other governmental agencies	
Payments to other schools for services	3,033,990
Total payments to other governmental agencies	<u>3,033,990</u>
 Other financing uses	
Transfers out	949,048
Total other financing uses	<u>949,048</u>
 Total expenditures	 <u><u>\$ 22,251,808</u></u>

Gratiot-Isabella Regional Education Service District
Vocational Education Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017

Revenues

Local sources	
Property taxes	\$ 2,679,493
Interest	232
Total local sources	<u>2,679,725</u>
State sources	
Unrestricted	
Renaissance zone	842
Restricted	
Vocational education administration	14,850
CTE Equipment grant	56,603
Total state sources	<u>72,295</u>
Federal sources	
Restricted	
Perkins	5,069
Total federal sources	<u>5,069</u>
Total revenues	<u><u>\$ 2,757,089</u></u>

Gratiot-Isabella Regional Education Service District
Vocational Education Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017

Expenditures

Support services	
Instructional staff	
Salaries	\$ 114,246
Employee benefits	73,951
Purchased services	7,209
Supplies and materials	1,912
Other	375
Total instructional staff	<u>197,693</u>
General administration	
Purchased services	3,642
Business services	
Purchased services	<u>11,995</u>
Total support services	213,330
Other expenditures	
Payments to other schools for services	2,405,602
Facilities acquisition, construction, and improvements	43,203
Total other expenditures	<u>2,448,805</u>
Total expenditures	<u><u>\$ 2,662,135</u></u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Revenues
 For the Year Ended June 30, 2017

Local sources	
Interest	\$ 5,520
Charges for services	96,475
Community service activities	629,648
Other local revenues	267,294
Total local sources	<u>998,937</u>
Non-educational entity or political subdivision	
United Way	32,989
Other non-educational entities	176,090
Total non-educational entity or political subdivision	<u>209,079</u>
State sources	
Restricted	
First Robotics	2,500
Great Start ECIC collaborative	190,245
Education - administrator evaluation	88,296
Michigan Model Health	84,891
Total state sources	<u>365,932</u>
Federal sources	
Unrestricted	
Medicaid	54,204
Restricted	
Nutrition assistance	186,109
Other	11,696
Total federal sources	<u>252,009</u>
Other revenues	
Payments from other schools for services	191,951
Total other revenues	<u>191,951</u>
Other financing sources	
Transfers in	666,900
Total other financing sources	<u>666,900</u>
Total revenues	<u><u>\$ 2,684,808</u></u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Year Ended June 30, 2017

Support services

Pupil services	
Salaries	\$ 100,857
Employee benefits	68,938
Purchased services	62,918
Supplies and materials	21,634
Other	58,573
Total pupil services	312,920
Instructional staff	
Salaries	92,723
Employee benefits	80,952
Purchased services	102,627
Supplies and materials	36,538
Other	179,710
Total instructional staff	492,550
Business services	
Purchased services	6,857
Total business services	6,857
Operations and maintenance	
Salaries	39,179
Employee benefits	28,039
Purchased services	8,752
Repairs and maintenance	27,356
Supplies and materials	125,912
Capital outlay	520,191
Total operations and maintenance	749,429
Central	
Salaries	95,079
Employee benefits	70,021
Purchased services	20,091
Repairs and maintenance	3,465
Supplies and materials	64,960
Capital outlay	
Other	288
Total central	253,904
Other support services	
Purchased services	1,002
Other	10,888
Total other support services	11,890
Total support services	1,827,550

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Year Ended June 30, 2017

Community services

Community recreation	\$ 39,277
Purchased services	4,357
Supplies and materials	16,404
Capital outlay	4,246
Other	<u>64,284</u>
Total community recreation	
 Community activities	
Purchased services	84
Supplies and materials	2,851
Other	426
Total community activities	<u>3,361</u>
 Care and custody of children	
Purchased services	267
Total care and custody of children	<u>267</u>
 Other community services	
Salaries	37,423
Employee benefits	24,616
Purchased services	82,158
Supplies and materials	11,346
Other	2,662
Total other community services	<u>158,205</u>
 Total community services	226,117
 Payments to other governmental agencies	
Payments to other schools	225,535
Payments to other governmental entities	3,000
Total payments to other governmental agencies	<u>228,535</u>
 Other financing uses	
Transfers out	523,371
Total other financing uses	<u>523,371</u>
 Total expenditures	<u><u>\$ 2,805,573</u></u>

Gratiot-Isabella Regional Education Service District
Funded Projects Fund
Statement of Revenues
For the Year Ended June 30, 2017

Local sources

Interest	\$ 255
Other local revenues	3,516
Total local sources	<u>3,771</u>

State sources

Path	66,012
Total state sources	<u>66,012</u>

Federal sources

NAFTA grants	173,807
WIA program grants	<u>2,095,727</u>
Total federal sources	<u>2,269,534</u>

Total revenues

\$ 2,339,317

Gratiot-Isabella Regional Education Service District
 Funded Projects Fund
 Statement of Expenditures
 For the Year Ended June 30, 2017

Support services

General administration	
Purchased services	\$ 7,250
Total general administration	7,250

Business	
Salaries	38,303
Employee benefits	21,099
Other	30
Total business	59,432

Operations and maintenance	
Purchased services	169
Repairs and maintenance	251,198
Supplies and materials	25
Capital outlay	9,802
Total operations and maintenance	261,194

Central	
Salaries	3,850
Employee benefits	1,811
Total central services	5,661

Community services

Other community service	
Salaries	660,782
Employee benefits	468,169
Purchased services	68,713
Repairs and maintenance	8,130
Supplies and materials	8,422
Capital outlay	12,365
Other	475,145
Total community services	1,701,726

Payments to other governmental agencies	
Payments to other governmental entity	303,839
Total payments to other governmental agencies	303,839

Total expenditures	\$ 2,339,102
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Gratiot-Isabella Regional Education Service District
Capital Projects Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017

Revenues

Local sources	
Interest	<u>\$ 1,964</u>

Other financing sources

Transfers in	<u>300,000</u>
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Total revenues	<u><u>\$ 301,964</u></u>
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Expenditures

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

Total expenditures	<u><u>\$ 84,695</u></u>
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Gratiot-Isabella Regional Education Service District
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2009 School Improvement Bonds - \$995,000					
Due October 1,					
2017	0.00%	\$ 84,695	\$ -	\$ -	\$ 84,695
2018	0.00%	84,695	-	-	84,695
2019	0.00%	232,745	-	-	232,745
		<u>\$ 402,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 402,135</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.