Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

Financial Statements
With Supplementary Information
June 30, 2018

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

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Gratiot-Isabella Regional Education Service District
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June 30, 2018

Roslund Prestage & Company
Certified Public Accountants

Independent Auditor's Report

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, the business-type 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, 2018, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this Statement, the financial statements have been changed to reflect the new presentation required by GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 October 1, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

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

October 1, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2018. 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.

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 decreased significantly over the prior year because special education and vocational education reimbursements of $2,419,610 were paid to local school districts before year end rather than after year end. This decrease was partially offset by an excess of revenues over expenditures (modified accrual basis) in the governmental funds of $749,967.

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 $590,811 while current year depreciation was $268,984. Capital assets with a book value of $93,187 (net of depreciation) were retired/scrapped during the year.

Deferred outflows increased for the year by $4,170,625 due primarily to a change in assumptions and a change in the proportion and differences between District contributions and proportionate share of pension contributions overall. See Note 11 on page 22 for more information.

The current liabilities decreased significantly from the prior year primarily due to special education and vocational education reimbursements of $2,419,610 that were paid to local school districts before year end rather than after year end.

The increase in noncurrent liabilities of $13,239,972 is due primarily to the implementation of GASB 75 which caused an unfunded liability related to OPEB (retiree health care) of $10,570,059 to be recorded in the financial statements. Another large change to noncurrent liabilities was due to an increase in net pension liability of $2,760,070 which can vary significantly from one year to the next based on the many variables used to actuarially determine that amount each year.

Deferred outflows increased for the year by $2,520,650 due primarily to the net difference between projected and actual earnings on pension plan investments. See Note 11 on page 22 for more information. Deferred outflows also increased due to the implementation of GASB 75 and the reporting of deferred outflows related to OPEB (retiree health care). See Note 12 on page 26 for more information.

The total net position for governmental activities decreased by 117.6% for the period or $10,331,552. Of this decrease, $10,570,059 was due to the implementation of GASB 75 which reports the unfunded liability for OPEB (retiree health care).

All information presented in Table 1 relates to governmental activities.

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2018 and 2017

	2018	2017	Difference
Current Assets	$ 16,504,381	$ 17,918,614	$ -1,414,233
Noncurrent Assets	4,571,335	4,342,695	228,640
Total Assets	$ 21,075,716	$ 22,261,309	$ -1,185,593
Deferred Outflows of Resources	$ 9,715,747	$ 5,545,122	$ 4,170,625
Current Liabilities	$ 4,537,924	$ 6,981,963	$ -2,444,039
Noncurrent Liabilities	41,876,677	28,636,705	13,239,972
Total Liabilities	$ 46,414,601	$ 35,618,668	$ 10,795,933
Deferred Inflows of Resources	$ 3,492,804	$ 972,154	$ 2,520,650
Investment in Capital Assets (Net of Related Debt)	$ 4,253,895	$ 3,940,560	$ 313,335
Restricted	8,373,980	7,619,923	754,057
Unrestricted	-31,743,817	-20,344,873	-11,398,944
Total Net Position	$ -19,115,942	$ -8,784,390	$ -10,331,552

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

Charges for Services increased by $500,632 for two primary reasons. Medicaid Fee for Service revenue increased by $311,234 due to increased billing for medical services and the amount billed to local districts for services provided also increased by $163,991.

Operating Grants and Contributions increased by $726,862 for two primary reasons. First, the district received additional special education funding of $384,488 which is based on increased special education costs. Second, the District's State funding for retirement increased by $330,339 to help offset increased retirement costs.

Table 2
Comparative Summary of Program, General, and Total Revenues
Years Ended June 30, 2018 and 2017

	2018	2017	Difference
Charges for Services	$ 3,695,864	$ 3,195,232	$ 500,632
Operating Grants and Contributions	14,137,391	13,410,529	726,862
Total Program Revenues	$ 17,833,255	$ 16,605,761	$ 1,227,494
Property Taxes	$14,286,612	$14,197,395	$ 89,217
State Aid Not Restricted to Specific Purposes	651,662	903,488	-251,826
Unrestricted Interest and Investment Earnings	115,155	42,242	72,913
Other	117,825	163,517	-45,692
Total General Revenues	$15,171,254	$15,306,642	$ -135,388
Total Revenues	$33,004,509	$31,912,403	$ 1,092,106

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 decreased during the year primarily due to decreased funding for Michigan Works programs of $529,308. The District had its service area reduced from four counties to two counties.

Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
Years Ended June 30, 2018 and 2017

	2018	2017	Difference
Instruction	$8,095,577	$7,732,361	$ 363,216
Support Services	17,165,029	16,413,190	751,839
Community Services	1,346,090	2,010,740	-664,650
Other	6,193,497	6,015,169	178,328
Depreciation – Unallocated	268,984	255,163	13,821
Total Expenses	$33,069,177	$32,426,623	$ 642,554

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.

Table 4
Comparative Summary of Net Position and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017	Difference
Governmental Type Activities:			
Net Position–Beginning	$-8,784,390	$-8,270,170	
Adjustment to Restate Beginning Net Position (See Note 16)	-10,266,884		
Net Position-Beginning Restated	-19,051,274	-8,270,170	
Increase (Decrease) in Net Position	-64,668	-514,220	$-449,552
Net Position – Ending	$-19,115,942	$-8,784,390	

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

The increase in Net Position is a function of the difference between the District-Wide Financial Statements and the Fund Financial Statements. The reconciliation between these two methods is presented on page 6. The main difference between the two models include the capitalization/depreciation of fixed assets, adjustment for payment of principal on long-term debt, inclusion of pension activity in accordance with GASB 68, the inclusion of OPEB (retiree Health) activity in accordance with GASB 75, and the inclusion of the internal service fund. 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 56. State funded CTE Equipment Grant. Federal special education grants including IDEA Flow Through and IDEA Preschool.
Support Services	State Special Education funding including Section 51 and Section 56. Other State funding including Early Literacy Teacher Coaches, Vocational Education Administration, First Robotics, Great Start ECIC Collaborative, and Michigan Model Health. Federal grants including, CTE 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 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 and/or internal service funds of the District changed significantly from the previous year for the Capital Projects Fund and Internal Service 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.

The Internal Service Fund had a significant increase in net position because of an aggregate stop loss reimbursement of $286,098 from excessive claims in a previous 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 Sources	Net Change in Fund Balance From Prior Year	Percent Change in Fund Balance as a Percent of Revenues and Other Financing Sources
General	$5,118,849	$ 78,862	1.54%
Special Education	22,969,594	427,699	1.86%
Vocational Education	3,333,193	28,016	0.84%
Cooperative Education	2,909,855	-9,430	-0.32%
Funded Projects	1,779,905	485	0.03%
Capital Projects	309,030	224,335	72.59%
Debt Service	84,695	-0-	0.00%
Internal Service	2,907,070	278,873	9.59%

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. 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, 2018 the original budget was adopted on June 15, 2017. 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, 2018 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 $348,552.

Other Financing Uses-Transfers Out – The original budget was amended to reflect an increase state funding for retirement which was partially transferred out to the Special Education Fund where the retirement costs were incurred $165,000 and to cover shortfalls in funding for programs in the Cooperative Education Fund of $74,988.

Variances between Final Budget and Actual Amounts

No individually significant variances.

Special Education Fund

Changes from Original Budget to Final Budget

Local Sources – The budget was increased to reflect an increase in Medicaid revenues for the year of $419,776.

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 by that same amount, resulting in an overall increase of $501,148. The District also received an increased reimbursement for lost personal property tax from the State of $223,756 due to property tax reform. The reimbursement for lost personal property tax is difficult to project because this was only the second year in which the district received those funds and data isn't available in advance to reasonably estimate the payment.

Instruction-Added Needs – The budget was increased to account for the additional staff who were hired by the District after the beginning of the fiscal year.

Support Services - Pupil – The budget was increased to account for the additional staff who were either hired or contracted by the District after the beginning of the fiscal year.

Variances between Final Budget and Actual Amounts

Federal Sources – The District utilized $249,021 less in Federal IDEA funds than expected and $84,320 less in Federal Early On funds.

Support Services-Pupil – Some positions that were budgeted were vacant for extended periods of time due to the difficulty in finding qualified candidates.

Vocational Education Fund

Changes from Original Budget to Final Budget

State Sources – The district was awarded two new grants for the purchase of new equipment for Career and Technical Education in the amount of $203,503.

Other Expenditures – The amount budgeted to reimburse districts for the operation of Career and Technical Education programs was increased mostly due to the equipment grants that were awarded during the year.

Variances between Final Budget and Actual Amounts

No individually significant variances.

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

Capital Assets

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

Buildings and Additions – A number of building improvements/additions were completed during the year including the roof replacement at Winding Brook Conference Center, the construction of a new pole barn next to the Mahoney building, and various other smaller projects. Disposals include improvements that were made to a leased building where the lease was terminated during the year and old improvements to other buildings that were renovated during the current year.

Equipment – Purchased a garden tractor during the year. Disposed of an old copier, generator, uninterruptable power supplies, and various other equipment during the year.

Furniture – Purchased some cubicles for the GTEC building.

Technology Equipment – Purchased two new servers during the year. Disposed of old server and some mobility equipment during the year.

Construction in Process – New projects started include the replacement of the glass store front on the Winding Brook Conference Center and the replacement of the steel siding on the Mahoney building. Projects completed during the year which were started in the previous year include the replacement of the roof on the Winding Brook Conference Center and the construction of a pole barn at the Mahoney building.

Long-Term Debt

A summary of the changes in long-term debt is presented on page 20. Detailed notes for these long-term debts are on page 19 and 20.

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

In the current year, the District had $33,601,317 in revenues of which $14,286,612 or 43% was from property taxes. Approximately 10% of the property tax revenue is derived from 186 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. A new wind farm is currently under construction which includes 68 new wind turbines. Property taxes will be collected on these new wind turbines beginning in the 2019/2020 fiscal year which will give the district a boost in property taxes 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, 2018

Assets	
Current assets	
Cash and investments	$ 13,513,499
Prepaid expenses	418,646
Due from other governmental units	2,572,236
Total current assets	16,504,381
Noncurrent assets	
Capital assets not being depreciated	262,339
Capital assets being depreciated, net	4,308,996
Total noncurrent assets	4,571,335
Total assets	21,075,716
Deferred outflows of resources	
Deferred outflow - related to pension	9,054,750
Deferred outflow - related to other post employment benefits	660,997
Total deferred outflows of resources	9,715,747
Liabilities	
Current liabilities	
Accounts payable	1,859,902
Salaries payable and related accruals	1,733,529
Unearned revenues	578,083
Incurred but not reported claims (IBNR)	268,338
Compensated absences, due within one year	13,377
Long-term obligations, due within one year	84,695
Total current liabilities	4,537,924
Non-current liabilities	
Long-term obligations, due beyond one year	232,745
Compensated absences, due beyond one year	75,803
Net pension liability	30,998,070
Net other post employment benefits liability	10,570,059
Total non-current liabilities	41,876,677
Total liabilities	46,414,601
Deferred inflows of resources	
Deferred inflow - related to pension	1,650,815
Deferred inflow - related to other post employment benefits	357,345
Deferred inflow - 147c allocation	1,484,644
Total deferred inflows of resources	3,492,804
Net position	
Net investment in capital assets	4,253,895
Restricted for:	
Special Education	4,165,955
Vocational Education	980,668
Cooperative Education	1,567,279
Funded Projects	5,458
Capital Projects	1,654,525
Debt Service	95
Unrestricted	(31,743,817)
Total net position	$ (19,115,942)

The notes are an integral part of these financial statements.

Gratiot-Isabella Regional Education Service District
Statement of Activities
For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net Revenues (Expense) and Changes in Net Position
Governmental activities:				
Instruction	$ 8,095,577	$ -	$ 3,459,006	$ (4,636,571)
Support services	17,165,029	3,695,864	8,803,061	(4,666,104)
Community service	1,346,090	-	1,875,324	529,234
Other	6,193,497	-	-	(6,193,497)
Depreciation - unallocated	268,984	-	-	(268,984)
Totals	$ 33,069,177	$ 3,695,864	$ 14,137,391	(15,235,922)
General revenues:				
Property taxes				14,286,612
State aid not restricted to specific purposes				651,662
Unrestricted interest and investment earnings				115,155
Other				117,825
Total general revenues				15,171,254
Change in net position				(64,668)
Net position - beginning as restated for net other post employment benefits				(19,051,274)
Net position - ending				$ (19,115,942)

The notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Gratiot-Isabella Regional Education Service District
Balance Sheet - Governmental Funds
June 30, 2018

	Major Funds				Total	Total
	General	Special Education	Vocational Education	Capital Projects	Nonmajor Funds	Governmental Funds
Assets						
Cash and investments	$ 3,588,060	$ 6,140,848	$ 1,244,277	$ 1,671,965	$ 514,433	$ 13,159,583
Prepaid expenses	4,625	24,550	-	-	17,771	46,946
Due from other funds	-	-	549	300,000	1,081,873	1,382,422
Due from other governmental units	666,306	1,468,206	75,418	-	362,306	2,572,236
Total assets	$ 4,258,991	$ 7,633,604	$ 1,320,244	$ 1,971,965	$ 1,976,383	$ 17,161,187
Liabilities						
Accounts payable	$ 81,928	$ 1,101,047	$ 336,471	$ -	$ 87,209	$ 1,606,655
Salaries payable and related accruals	56,254	1,553,389	3,105	-	120,781	1,733,529
Due to other funds	795,614	490,913	-	-	95,895	1,382,422
Due to internal service fund	213	-	-	-	-	213
Unearned revenues	198,438	297,750	-	-	81,895	578,083
Total liabilities	1,132,447	3,443,099	339,576	-	385,780	5,300,902
Fund balance						
Non-spendable	4,625	24,550	-	-	17,771	46,946
Restricted	-	4,165,955	980,668	1,654,525	1,572,832	8,373,980
Committed:						
Future bond payments	-	-	-	317,440	-	317,440
Undesignated	3,121,919	-	-	-	-	3,121,919
Total fund balance	3,126,544	4,190,505	980,668	1,971,965	1,590,603	11,860,285
Total liabilities and fund balance	$ 4,258,991	$ 7,633,604	$ 1,320,244	$ 1,971,965	$ 1,976,383	$ 17,161,187

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, 2018

Total fund balance - governmental funds		$ 11,860,285
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	7,256,013
Deduct:	Accumulated depreciation	(2,684,678)
Other amounts reported in the statement of activities that do not require current financial resources consist of:		
Deduct:	Compensated absences payable	(89,180)
Add:	Deferred outflow - related to pension	9,054,750
Add:	Deferred outflow - related to other post employment benefits	660,997
Deduct:	Net pension liability	(30,998,070)
Deduct:	Net other post employment benefits	(10,570,059)
Deduct:	Deferred inflow - related to pension	(1,650,815)
Deduct:	Deferred inflow - related to other post employment benefits	(357,345)
Revenue in support of pension contributions made subsequent to the measurement date.		
Deduct:	Deferred inflow - 147c allocation	(1,484,644)
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:	2009 improvement bonds	(317,440)
Internal service fund is used by management to charge the cost of self funded employee benefits to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		
Add:	Internal service assets and liabilities in the statement of net position	204,244
Net position of governmental activities		$ (19,115,942)

The notes are an integral part of these financial statements.

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2018

	Major Funds				Total	Total
	General	Special Education	Vocational Education	Capital Projects	Nonmajor Funds	Governmental Funds
Revenues						
Local sources	$ 1,028,879	$ 12,050,880	$ 2,704,712	$ 9,030	$ 1,166,700	$ 16,960,201
Non-educational entity	-	-	-	-	107,828	107,828
State sources	2,369,757	6,293,455	223,020	-	438,281	9,324,513
Federal sources	-	3,590,749	405,461	-	1,895,664	5,891,874
Other sources	879,292	248,210	-	-	189,399	1,316,901
Total revenues	4,277,928	22,183,294	3,333,193	9,030	3,797,872	33,601,317
Expenditures						
Instruction						
Added needs	-	7,936,499	-	-	-	7,936,499
Total instruction	-	7,936,499	-	-	-	7,936,499
Support services						
Pupil	82,357	6,242,823	36,554	-	342,563	6,704,297
Instructional staff	860,461	63,255	218,954	-	354,355	1,497,025
General administration	499,686	348,931	9,270	-	4,750	862,637
School administration	-	721,015	-	-	-	721,015
Business	1,128,212	259,627	8,127	-	46,357	1,442,323
Operation and maintenance	233,029	250,118	-	-	1,068,443	1,551,590
Pupil transportation	-	3,077,970	-	-	-	3,077,970
Central	916,354	135,682	-	-	257,104	1,309,140
Other support services	-	-	-	-	116,089	116,089
Total support services	3,720,099	11,099,421	272,905	-	2,189,661	17,282,086
Community services	-	43,845	-	-	1,275,147	1,318,992
Facilities improvements	-	-	-	-	35,581	35,581
Debt service	-	-	-	-	84,695	84,695
Other	-	2,640,138	3,032,272	-	521,087	6,193,497
Total expenditures	3,720,099	21,719,903	3,305,177	-	4,106,171	32,851,350
Revenues over (under) expenditures	557,829	463,391	28,016	9,030	(308,299)	749,967
Other financing sources (uses)						
Transfers in	840,921	786,300	-	300,000	976,583	2,903,804
Transfers (out)	(1,319,888)	(821,992)	-	(84,695)	(677,229)	(2,903,804)
Net change in fund balances	78,862	427,699	28,016	224,335	(8,945)	749,967
Fund balance - beginning	3,047,682	3,762,806	952,652	1,747,630	1,599,548	11,110,318
Fund balance - ending	$ 3,126,544	$ 4,190,505	$ 980,668	$ 1,971,965	$ 1,590,603	$ 11,860,285

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, 2018

Net change in fund balances - total governmental funds		$ 749,967
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	590,811
Deduct:	Depreciation expense	(268,984)
Deduct:	Loss on disposal of capital assets	(93,187)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add:	Change in accrual for compensated absences	6,426
Add:	Change in deferred outflow - related to pension	3,509,628
Deduct:	Change in deferred outflow - related to other post employment benefits	(221,190)
Deduct:	Change in net pension liability	(2,760,070)
Add:	Change in net other post employment benefits	579,012
Deduct:	Change in deferred inflow - related to pension	(1,566,495)
Deduct:	Change in deferred inflow - related to other post employment benefits	(357,345)
Revenue in support of pension contributions made subsequent to the measurement date.		
Deduct:	Change in deferred inflow - 147c allocation	(596,810)
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
Internal service fund is used by management to charge the cost of self funded employee benefits to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		
Add:	Net revenues and expenses	278,873
Change in net position of governmental activities		$ (64,668)

Gratiot-Isabella Regional Education Service District
Statement of Net Position - Proprietary Fund
June 30, 2018

	Internal Service Fund
Assets	
Current assets	
Cash and investments	$ 353,916
Prepaid expenses	371,700
Due from general fund	213
Total current assets	725,829
Liabilities	
Current liabilities	
Accounts payable	253,247
Incurred but not reported claims (IBNR)	268,338
Total current liabilities	521,585
Net position	
Unrestricted	$ 204,244

	Internal Service Fund
Operating revenues	
Employer health and dental premiums	$ 2,907,070
Total operating revenues	2,907,070
Operating expenses	
Medical and dental claims	2,427,097
Purchased services	179,848
Other	22,088
Total operating expenses	2,629,033
Operating income	278,037
Non operating revenues	
Interest income	836
Net change in net position	278,873
Net position - beginning	(74,629)
Net position - ending	$ 204,244

The notes are an integral part of these financial statements.

Gratiot-Isabella Regional Education Service District
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2018

	Internal Service Fund
Cash flows from operating activities	
Employer health and dental premiums	$ 2,907,070
Payment of medical and dental claims	(2,304,236)
Payment of purchased services	(179,848)
Other payments	(22,088)
Net cash provided by operating activities	400,898
Cash flows from investing activities	
Interest received	836
Cash flows from non-capital financing activities	
Payments from other funds	(193,232)
Net change in cash and cash equivalents	208,502
Cash and cash equivalents - beginning	145,414
Cash and cash equivalents - ending	$ 353,916

Reconciliation of operating income to net cash provided by operating activities:

Operating Income	$ 278,037
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Prepaid expenses	47,416
Accounts payable	253,247
Incurred but not reported claims (IBNR)	(177,802)
Net cash provided by operating activities	$ 400,898

Gratiot-Isabella Regional Education Service District
Statement of Fiduciary Net Position
June 30, 2018

	Agency Fund
Assets	
Cash	$ 28,945
Total assets	28,945
Liabilities	
Due to student activities	28,945
Total liabilities	28,945
Net Position	$ -

The notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gratiot-Isabella Regional Education Service District (the District) conform to 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 *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.

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.

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 if 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.
- 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

<u>Cash and Cash Equivalents</u>
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.

<u>Investments</u>
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.

<u>Inventory</u>
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.

<u>Prepaid items</u>
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.

<u>Due from/to other funds</u>
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.

<u>Capital Assets</u>
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 acquisition 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 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
Construction in process	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.
- Related to other post-employment benefits - A deferred outflow is recognized for other post-employment benefits 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.
- Related to other post-employment benefits - Future resources yet to be recognized in relation to the OPEB actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the OPEB 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.

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.

Pension
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Postemployment Benefits Other Than Pensions
For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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 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	3,668,812
Investments - MILAF	9,844,187
Total	13,513,499

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, 2018, 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 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, 2018, $4,157,909 of the District's bank balance of $4,657,909 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	8,718,077	0.1479	AAAm	88.42%
MILAF External Investment pool-MIMAX	1,141,834	0.1479	AAAm	11.58%
Total	9,859,910			

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
Vocational Education	549	General Fund	795,614
Capital Projects	300,000	Special Education	490,913
Cooperative Education	1,081,873	Funded Projects	95,895
Total	1,382,422	Total	1,382,422

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	1,612,636
Federal grants and other pass-through agencies	737,987
MMNET	221,613
Total	2,572,236

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	183,159	-	-	183,159
Construction in process	31,430	79,180	(31,430)	79,180
Total capital assets not being depreciated	214,589	79,180	(31,430)	262,339
Capital assets being depreciated				
Buildings and Improvement	5,864,326	446,972	(88,680)	6,222,618
Equipment	309,536	6,635	(80,280)	235,891
Furniture	58,285	43,654	-	101,939
MMNet System	74,620	-	-	74,620
Technology Equipment	364,058	14,369	(19,821)	358,606
Total capital assets being depreciated	6,670,825	511,631	(188,781)	6,993,674
Accumulated depreciation				
Buildings and Improvement	(2,124,383)	(206,257)	48,458	(2,282,182)
Equipment	(138,860)	(24,571)	58,746	(104,685)
Furniture	(22,534)	(5,498)	-	(28,032)
MMNet System	(70,889)	(3,731)	-	(74,620)
Technology Equipment	(186,052)	(28,928)	19,821	(195,159)
Total accumulated depreciation	(2,542,718)	(268,984)	127,025	(2,684,678)
Net capital assets being depreciated	4,128,107	242,645	(61,756)	4,308,996
Net capital assets	4,342,696	321,825	(93,187)	4,571,335

Depreciation for the year ended June 30, 2018 totaled $268,984. 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	95,606	7,915	(14,341)	89,180	13,377
2009 School Improv Bonds	402,135	-	(84,695)	317,440	84,695
Total long-term debt	497,741	7,915	(99,036)	406,620	98,072

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2018, 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	262,339
Capital asset being depreciated, net	4,308,996
Capital related general obligation bonds	(317,440)
Net investment in capital assets	4,253,895

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.

The future minimum lease obligations as of:

Year Ending June 30	Amount
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 BENEFITS

Plan Description
The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided
Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions
Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

District contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for the plan's fiscal year 2017.

Benefit Structure	Member	District
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the District were $2,805,674 for the year ended September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the District reported a liability of $30,998,070 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net pension liability was determined by dividing each District's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable Districts during the measurement period. At September 30, 2017, the District's proportion was 0.11961785%, which was an increase of 0.00643580% from its proportion measured as of September 30, 2016.

For the year ending June 30, 2018, the District recognized pension expense of $4,176,709. At June 30, 2018, 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 actual and expected experience	269,394	152,101
Changes of Assumptions	3,396,085	-
Net difference between projected and actual earnings on pension plan investments	-	1,481,912
Changes in proportion and differences between District contributions and proportionate share of contributions	2,506,518	16,802
District contributions subsequent to the measurement date	2,882,753	-
Total	9,054,750	1,650,815

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
2018	1,528,426
2019	1,932,251
2020	949,272
2021	111,233

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	7.5%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were

used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.5188 for non-university employers or 1.1222 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
Total	100.0%	
**Long-term rates of return are net of administrative expenses and 2.3% inflation.*		

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
40,380,175	30,998,070	23,098,935
* The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.		

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPSERS)
At year end the District is current on all required pension plan payments. At June 30, 2018, the District reported a payable of $389,134 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018, consisting of pension contribution payable plus any other amounts owed to the pension plan including the UAAL payments for July and August 2018.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (RETIREE HEALTH CARE)
Plan Description
The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided
Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, 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 healthcare 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. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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 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 were deposited into their 401(k) account.

Contributions
Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for plan's fiscal year 2017.

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from the District were $929,283 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the District reported a liability of $10,570,059 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.11936191%, which was the same percentage as its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, the District recognized OPEB expense of $707,006. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	-	112,540
Changes of Assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	244,805
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,325	-
Employer contributions subsequent to the measurement date	659,672	-
Total	660,997	357,345

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2018	(86,057)
2019	(86,057)
2020	(86,057)
2021	(86,057)
2022	(11,792)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80%

	of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
Total	100.0%	
*Long-term rates of return are net of administrative expenses and 2.3% inflation.		

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate
The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
12,380,595	10,570,059	9,033,482

Sensitivity of the District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate
The following presents the District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend	1% Increase
8,951,419	10,570,059	12,407,912

OPEB Plan Fiduciary Net Position
Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan
At year end the District is current on all required OPEB plan payments. At June 30, 2018, the District reported a payable of $74,845 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018, consisting of OPEB contribution payable plus any other amounts owed to the OPEB plan including the UAAL payments for July and August 2018.

NOTE 13 - TRANSFERS
During the year the following transfers were made between funds:

- Transfer of $778,000 from the general fund to the special education fund is comprised of $148,000 for pre-Proposal A FICA and retirement. The other$630,000 is the special education fund's share of the section 147c pension UAAL funding from the State.
- The transfer of $241,888 from the general fund to the cooperative education fund is to make up shortfalls in projects/programs including the operation of Winding Brook $87,000, German Exchange $30,000, Data Processing $19,263, First Robotics $2,125, Instruction Workshops $31,000, matching funds for Michigan Model Grant $5,000, and operation of Forest Hill $67,500.
- The transfer of $300,000 from the General Fund to the Capital Projects fund is to accumulate funds for large capital projects in the future (rather than issuing bonds).
- The transfer of $650,000 within the Cooperative Education Fund is to set aside funds for current maintenance projects of $650,000.
- The transfer of $18,929 from the Cooperative Education Fund to the General Fund is to reimburse the General Fund for indirect costs on a number of grants.
- The transfer of $8,300 from the Cooperative Education Fund to the Special Education fund is to reimburse the Special Education Fund for some costs from a grant.
- The transfer of $821,992 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, instructional services, operation/maintenance services, and other administrative services.
- The transfer of $84,695 from the Capital Projects Fund to the Debt Service Fund was for the purpose of making a debt payment for the current year.

NOTE 14 - 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, 2018 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, 2018 balance of $268,338 is expected to be paid the following year.

NOTE 15 - TAX ABATEMENTS

Effective for the year ended June 30, 2018 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	2,891
City of Alma	49,702
City of Ithaca	8,825
City of Mt. Pleasant	85,378
City of St. Louis	13,579
Coe Township	1,259
Elba Township	4,621
Fulton Township	1,579
Isabella Township	468
Pine River Township	8,733
Union Township	49,559
Wheeler Township	3,576
Total	230,170

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 16 – RESTATEMENT OF NET POSITION

As of June 30, 2018, the beginning net position was restated as follows:

Description of Restatement	Beginning Balance Previously Reported	Restatement	Beginning Balance As Restated
Net Position	(8,784,390)	(10,266,884)	(19,051,274)

The beginning net position was restated to reflect the implementation of GASB 75. Net position was restated by $(10,266,884) which is the cumulative difference (as of June 30, 2017) between the net OPEB liability of $(11,149,071) and the deferred outflow – related to OPEB of $ 882,187. NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (RETIREE HEALTH CARE) contains additional information regarding the implementation of GASB 75.

NOTE 17 - 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 Note 18 – RELATED PARTIES.

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 18 – 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-today engineering, acquisition, installation, and management of MMNet. Revenue received from members included $443,633 to maintain the fiber network and the CIPA filter. Expenses paid to GIRESD included $180,275 for technology staff to maintain and operate fiber network, servers and filter, and $44,000 for business services, insurance and use of facilities.

NOTE 19 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the District's 2019-2020 fiscal year. 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.

GASB Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the District's 2020-2021 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

Gratiot-Isabella Regional Education Service District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with final budget
Revenues				
Local sources	$ 992,580	$ 1,016,520	$ 1,028,879	$ 12,359
State sources	2,016,850	2,415,083	2,369,757	(45,326)
Federal sources	-	-	-	-
Other sources	827,575	882,622	879,292	(3,330)
Total revenues	3,837,005	4,314,225	4,277,928	(36,297)
Expenditures				
Support services				
Pupil	81,728	81,913	82,357	(444)
Instructional staff	879,280	902,410	860,461	41,949
General administration	503,026	523,760	499,686	24,074
Business	1,173,029	1,207,207	1,128,212	78,995
Operation and maintenance	283,879	274,358	233,029	41,329
Central	894,616	952,856	916,354	36,502
Total expenditures	3,815,558	3,942,504	3,720,099	222,405
Revenues over (under) expenditures	21,447	371,721	557,829	186,108
Other financing sources (uses)				
Transfers in	1,002,333	881,780	840,921	(40,859)
Transfers (out)	(1,079,900)	(1,319,888)	(1,319,888)	-
Net change in fund balance	(56,120)	(66,387)	78,862	145,249
Fund balance - beginning	3,047,682	3,047,682	3,047,682	-
Fund balance - ending	$ 2,991,562	$ 2,981,295	$ 3,126,544	$ 145,249

Gratiot-Isabella Regional Education Service District
Budgetary Comparison Schedule for the Special Education Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance
	Original	Final	Actual	with final budget
Revenues				
Local sources	$ 11,725,300	$ 12,147,167	$ 12,050,880	$ (96,287)
State sources	5,550,505	6,293,433	6,293,455	22
Federal sources	3,805,374	3,928,809	3,590,749	(338,060)
Other sources	133,363	240,050	248,210	8,160
Total revenues	21,214,542	22,609,459	22,183,294	(426,165)
Expenditures				
Instruction				
Added needs	7,758,693	7,997,883	7,936,499	61,384
Total instruction	7,758,693	7,997,883	7,936,499	61,384
Support services				
Pupil	6,302,471	6,593,246	6,242,823	350,423
Instructional staff	74,755	100,581	63,255	37,326
General administration	319,768	337,280	348,931	(11,651)
School administration	690,101	726,145	721,015	5,130
Business	245,922	287,466	259,627	27,839
Operation and maintenance	278,309	256,348	250,118	6,230
Pupil transportation	2,757,800	3,205,900	3,077,970	127,930
Central	135,166	138,732	135,682	3,050
Total support services	10,804,292	11,645,698	11,099,421	546,277
Community Services	54,241	43,844	43,845	(1)
Other	2,700,000	2,660,711	2,640,138	20,573
Total expenditures	21,317,226	22,348,136	21,719,903	628,233
Revenues over (under) expenditures	(102,684)	261,323	463,391	202,068
Other financing sources (uses)				
Transfers in	613,000	786,300	786,300	-
Transfers (out)	(963,648)	(860,204)	(821,992)	38,212
Net change in fund balance	(453,332)	187,419	427,699	240,280
Fund balance - beginning	3,762,806	3,762,806	3,762,806	-
Fund balance - ending	$ 3,309,474	$ 3,950,225	$ 4,190,505	$ 240,280

Gratiot-Isabella Regional Education Service District
Budgetary Comparison Schedule for the Vocational Education Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual	
Revenues				
Local sources	$ 2,717,020	$ 2,725,692	$ 2,704,712	$ (20,980)
State sources	15,691	223,015	223,020	5
Federal Sources	447,041	405,464	405,461	(3)
Total revenues	3,179,752	3,354,171	3,333,193	(20,978)
Expenditures				
Support services				
Pupil	40,000	36,554	36,554	-
Instructional staff	213,888	217,192	218,954	(1,762)
General administration	7,500	7,500	9,270	(1,770)
Business	10,100	16,100	8,127	7,973
Total support services	271,488	277,346	272,905	4,441
Site acquisition	2,895,041	3,168,945	3,032,272	136,673
Total expenditures	3,166,529	3,446,291	3,305,177	141,114
Revenues over (under) expenditures	13,223	(92,120)	28,016	120,136
Fund balance - beginning	952,652	952,652	952,652	-
Fund balance - ending	$ 965,875	$ 860,532	$ 980,668	$ 120,136

Schedule of the District's Proportionate Share of the Net Pension Liability

Description	Plan year Sept 30, 2017	Plan year Sept 30, 2016	Plan year Sept 30, 2015	Plan year Sept 30, 2014
District's proportion of net pension liability (%)	0.1196179%	0.1131821%	0.1087606%	0.10049205%
District's proportionate share of net pension liability	$ 30,998,070	$ 28,238,000	$ 26,564,815	$ 22,134,885
District's covered employee payroll	$ 10,297,492	$ 9,673,069	$ 9,086,611	$ 8,546,653
District's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	301.03%	291.92%	292.35%	258.99%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.01%	62.92%	66.20%

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

Schedule of the District's Pension Contributions

Description	Fiscal year June 30, 2018	Fiscal year June 30, 2017	Fiscal year June 30, 2016	Fiscal year June 30, 2015
Statutorily required pension contributions	$ 3,235,981	$ 2,797,974	$ 2,592,117	$ 1,951,434
Contributions in relation to statutorily required pension contributions	$ 3,235,981	$ 2,797,974	$ 2,592,117	$ 1,951,434
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District’s covered-employee payroll	$ 10,564,547	$ 10,139,133	$ 9,489,744	$ 8,972,446
Contributions as a percentage of covered-employee payroll	30.63%	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

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

Schedule of the District's Proportionate Share of the Net OPEB Liability

Description	Plan year Sept 30, 2017
District's proportion of net OPEB liability (%)	0.1193619%
District's proportionate share of net OPEB liability	$ 10,570,059
District's covered employee payroll	$ 10,297,492
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll (%)	102.65%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

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

Schedule of the District's OPEB Contributions

Description	Fiscal year June 30, 2018
Statutorily required OPEB contributions	$ 813,798
Contributions in relation to statutorily required OPEB contributions	$ 813,798
Contribution deficiency (excess)	$ -
District’s covered-employee payroll	$ 10,564,547
Contributions as a percentage of covered-employee payroll	27.60%

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
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018

	Cooperative Education	Funded Projects	Debt Service	Total Nonmajor Funds
Assets				
Cash and investments	$ 467,554	$ 46,784	$ 95	$ 514,433
Prepaid expenses	-	17,771	-	17,771
Due from other funds	1,081,873	-	-	1,081,873
Due from other governmental units	153,913	208,393	-	362,306
Total assets	$ 1,703,340	$ 272,948	$ 95	$ 1,976,383
Liabilities				
Accounts payable	$ 36,970	$ 50,239	$ -	$ 87,209
Salaries payable and related accruals	17,754	103,027	-	120,781
Due to other funds	-	95,895	-	95,895
Unearned revenues	81,337	558	-	81,895
Total liabilities	136,061	249,719	-	385,780
Fund balance				
Non-spendable	-	17,771	-	17,771
Restricted	1,567,279	5,458	95	1,572,832
Total fund balance	1,567,279	23,229	95	1,590,603
Total liabilities and fund balance	$ 1,703,340	$ 272,948	$ 95	$ 1,976,383

Gratiot-Isabella Regional Education Service District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Cooperative Education	Funded Projects	Debt Service	Total Nonmajor Funds
Revenues				
Local sources	$ 1,159,622	$ 7,078	$ -	$ 1,166,700
Non-educational entity	107,828	-	-	107,828
State sources	287,873	150,408	-	438,281
Federal sources	273,245	1,622,419	-	1,895,664
Other sources	189,399	-	-	189,399
Total revenues	2,017,967	1,779,905	-	3,797,872
Expenditures				
Support services				
Pupil	342,563	-	-	342,563
Instructional staff	354,355	-	-	354,355
General administration	-	4,750	-	4,750
Business	6,289	40,068	-	46,357
Operation and maintenance	816,393	252,050	-	1,068,443
Central	252,654	4,450	-	257,104
Other support services	116,089	-	-	116,089
Total support services	1,888,343	301,318	-	2,189,661
Community services	102,729	1,172,418	-	1,275,147
Facilities improvements	35,581	-	-	35,581
Debt service	-	-	84,695	84,695
Other	215,403	305,684	-	521,087
Total expenditures	2,242,056	1,779,420	84,695	4,106,171
Revenues over (under) expenditures	(224,089)	485	(84,695)	(308,299)
Other financing sources (uses)				
Transfers in	891,888	-	84,695	976,583
Transfers (out)	(677,229)	-	-	(677,229)
Net change in fund balances	(9,430)	485	-	(8,945)
Fund balance - beginning	1,576,709	22,744	95	1,599,548
Fund balance - ending	$ 1,567,279	$ 23,229	$ 95	$ 1,590,603

Gratiot-Isabella Regional Education Service District
General Fund
Statement of Revenues
For the Year Ended June 30, 2018

Local sources		
Property taxes	$	711,830
Interest		29,677
Other local revenues		287,372
Total local sources		1,028,879
State sources		
Grant-in-aid from State		2,347,591
State payment in lieu of tax		22,166
Total state sources		2,369,757
Other sources		
Payments received from other public schools		879,292
Other financing sources		
Transfers from other funds		840,921
Total revenues and other financing sources	$	4,089,970

Support services		
Pupil		
Salaries	$	39,070
Employee benefits		38,476
Purchased services		4,712
Supplies and materials		99
Total pupil		82,357
Instructional staff		
Salaries		400,439
Employee benefits		293,623
Purchased services		156,497
Supplies and materials		6,943
Other		2,959
Total instructional staff		860,461
General administration		
Salaries		218,958
Employee benefits		141,181
Purchased services		109,113
Supplies and materials		4,656
Other		25,778
Total general administration		499,686
Business		
Salaries		577,083
Employee benefits		423,454
Purchased services		58,756
Repairs and maintenance		1,000
Supplies and materials		63,190
Capital outlay		700
Other		4,029
Total business		1,128,212
Operations and maintenance		
Salaries		49,407
Employee benefits		42,251
Purchased services		15,929
Repairs and maintenance		71,523
Supplies and materials		53,374
Capital outlay		545
Total operations and maintenance		233,029

Support services (continued)		
Central		
Salaries	$	309,016
Employee benefits		219,668
Purchased services		246,856
Supplies and materials		62,947
Other		77,867
Total central		916,354
Total support services		3,720,099
Other financing uses		
Transfers out to other funds		1,319,888
Total expenditures	$	5,039,987

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Revenues
For the Year Ended June 30, 2018

Local sources	
Property taxes	$ 10,878,451
Interest	50,893
Charges for services	1,109,929
Other local revenues	11,607
Total local sources	12,050,880
State sources	
Unrestricted	
State payment in lieu of tax	338,753
Restricted	
Membership - section 52	1,640,818
Integrated behavior support	6,048
Special education - section 51	4,160,772
Special education - section 56	147,064
Total state sources	6,293,455
Federal sources	
Restricted	
P.L. 94-142 flowthrough	3,259,588
P.L. 94-142 preschool incentive	126,302
P.L. 94-142 state initiated projects - EOSD	50,000
Transition service	58,000
Infant / toddler formula	96,859
Total federal sources	3,590,749
Other sources	
Payments from other school districts	248,210
Total other sources	248,210
Other financing sources	
Transfers from other funds	786,300
Total other financing sources	786,300
Total revenues and other financing sources	$ 22,969,594

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2018

Instruction		
Added needs		
Salaries	$	3,741,546
Employee benefits		3,007,698
Purchased services		251,970
Supplies and materials		53,663
Capital outlay		11,682
Payments to other schools for services		869,940
Total added needs		7,936,499
Support services		
Pupil services		
Salaries		3,491,842
Employee benefits		2,408,748
Purchased services		227,930
Supplies and materials		47,895
Capital outlay		464
Other		65,944
Total pupil services		6,242,823
Instructional staff		
Salaries		25,660
Employee benefits		15,948
Purchased services		21,647
Total instructional staff		63,255
General administration		
Salaries		177,607
Employee benefits		109,270
Purchased services		58,857
Supplies and materials		2,040
Other		1,157
Total general administration		348,931
School administration		
Salaries		393,227
Employee benefits		290,497
Purchased services		18,624
Supplies and materials		18,341
Other		326
Total school administration		721,015
Business services		
Salaries		19,031
Employee benefits		16,427
Purchased services		195,461
Repairs and maintenance		9,000
Supplies and materials		11,094
Other		8,614
Total business services		259,627

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2018

Support services (continued)	
Operations and maintenance	
Salaries	$ 27,110
Employee benefits	21,251
Purchased services	23,981
Repairs and maintenance	147,075
Supplies and materials	30,701
Total operations and maintenance	250,118
Pupil transportation	
Contracted services	3,076,832
Payments to other schools for services	1,138
Total pupil transportation	3,077,970
Central	
Salaries	44,959
Employee benefits	28,518
Purchased services	62,205
Total central	135,682
Total support services	11,099,421
Community services	
Non-public school pupils	
Salaries	29,394
Employee benefits	13,117
Purchased services	1,334
Total community services	43,845
Other expenditures	
Payments to other schools for services	2,640,138
Total other expenditures	2,640,138
Other financing uses	
Transfers out	821,992
Total other financing uses	821,992
Total expenditures	$ 22,541,895

Gratiot-Isabella Regional Education Service District
Vocational Education Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2018

Local sources		
Property taxes	$	2,696,331
Interest		8,381
Total local sources		2,704,712
State sources		
Unrestricted		
Renaissance zone		3,717
Restricted		
Vocational education administration		15,800
CTE Equipment grant		203,503
Total state sources		223,020
Federal sources		
Restricted		
Perkins		405,461
Total federal sources		405,461
Total revenues	$	3,333,193

Gratiot-Isabella Regional Education Service District
Vocational Education Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2018

Support services	
Pupil	
Supplies and materials	$ 36,554
Total pupil	36,554
Instructional staff	
Salaries	115,952
Employee benefits	77,332
Purchased services	10,299
Supplies and materials	14,253
Other	1,118
Total instructional staff	218,954
General administration	
Purchased services	9,270
Total general administration	9,270
Business services	
Purchased services	8,127
Total business services	8,127
Total support services	272,905
Other expenditures	
Payments to other schools for services	3,032,272
Total other expenditures	3,032,272
Total expenditures	$ 3,305,177

Gratiot-Isabella Regional Education Service District
Cooperative Education Fund
Statement of Revenues
For the Year Ended June 30, 2018

Local sources	
Interest	$ 10,403
Charges for services	52,020
Student activity fees	77,638
Community service activities	842,312
Other local revenues	177,249
Total local sources	1,159,622
Non-educational entity	
United Way	24,786
Other non-educational entities	83,042
Total non-educational entity	107,828
State sources	
Restricted	
First Robotics	3,500
Great Start ECIC collaborative	185,004
Education - administrator evaluation	19,127
Michigan Model Health	80,242
Total state sources	287,873
Federal sources	
Unrestricted	
Medicaid	47,262
Restricted	
Nutrition assistance	211,703
Other	14,280
Total federal sources	273,245
Other sources	
Payments from other schools for services	189,399
Total other sources	189,399
Other financing sources	
Transfers in	891,888
Total other financing sources	891,888
Total revenues	$ 2,909,855

Gratiot-Isabella Regional Education Service District
Cooperative Education Fund
Statement of Expenditures
For the Year Ended June 30, 2018

Support services		
Pupil services		
Salaries	$	121,305
Employee benefits		79,934
Purchased services		58,659
Supplies and materials		17,715
Other		64,950
Total pupil services		342,563
Instructional staff		
Salaries		88,294
Employee benefits		79,486
Purchased services		56,936
Supplies and materials		16,266
Other		113,373
Total instructional staff		354,355
Business services		
Purchased services		6,289
Total business services		6,289
Operations and maintenance		
Salaries		53,708
Employee benefits		34,331
Purchased services		21,778
Repairs and maintenance		17,570
Supplies and materials		63,515
Capital outlay		625,491
Total operations and maintenance		816,393
Central		
Salaries		96,463
Employee benefits		72,759
Purchased services		17,208
Repairs and maintenance		54,302
Supplies and materials		11,634
Other		288
Total central		252,654
Other support services		
Purchased services		100,262
Other		15,827
Total other support services		116,089
Total support services		1,888,343

Gratiot-Isabella Regional Education Service District
Cooperative Education Fund
Statement of Expenditures
For the Year Ended June 30, 2018

Community services	
Community recreation	
Purchased services	$ 38,418
Supplies and materials	7,757
Other	3,659
Total community recreation	49,834
Community activities	
Purchased services	657
Repairs and maintenance	1,388
Supplies and materials	513
Other	1,255
Total community activities	3,813
Care and custody of children	
Purchased services	66
Total care and custody of children	66
Other community services	
Salaries	13,136
Employee benefits	7,499
Purchased services	19,561
Supplies and materials	7,649
Other	1,171
Total other community services	49,016
Total community services	102,729
Facilities improvements	
Building improvements Services	
Capital outlay	35,581
Total building Improvements Services	35,581
Other expenditures	
Payments to other schools	215,403
Total other expenditures	215,403
Other financing uses	
Transfers out	677,229
Total other financing uses	677,229
Total expenditures	$ 2,919,285

Gratiot-Isabella Regional Education Service District
Funded Projects Fund
Statement of Revenues
For the Year Ended June 30, 2018

Local sources	
Interest	$ 568
Other local revenues	6,510
Total local sources	7,078
State sources	
Path	150,408
Total state sources	150,408
Federal sources	
NAFTA grants	125,734
WIA program grants	1,496,685
Total federal sources	1,622,419
Total revenues	$ 1,779,905

Gratiot-Isabella Regional Education Service District
Funded Projects Fund
Statement of Expenditures
For the Year Ended June 30, 2018

Support services	
General administration	
Purchased services	$ 4,750
Total general administration	4,750
Business	
Salaries	25,702
Employee benefits	13,795
Purchased services	495
Other	76
Total business	40,068
Operations and maintenance	
Purchased services	224
Repairs and maintenance	251,777
Supplies and materials	49
Total operations and maintenance	252,050
Central	
Salaries	2,512
Employee benefits	1,938
Total central services	4,450
Community services	
Other community service	
Salaries	500,382
Employee benefits	346,078
Purchased services	18,793
Repairs and maintenance	155
Supplies and materials	8,750
Other	298,260
Total community services	1,172,418
Other expenditures	
Payments to other governmental entity	305,684
Total other expenditures	305,684
Total expenditures	$ 1,779,420

The notes are an integral part of these financial statements.

Gratiot-Isabella Regional Education Service District
Capital Projects Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2018

Revenues	
Local sources	
Interest	$ 9,030
Other financing sources	
Transfers in	300,000
Total revenues	$ 309,030
Expenditures	
Debt service	$ 84,695
Total expenditures	$ 84,695

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due November	Interest Due May	Total
2009 School Improvement Bonds - $995,000					
Due October 1,					
2018	0.00%	$ 84,695	$ -	$ -	$ 84,695
2019	0.00%	232,745	-	-	232,745
		$ 317,440	$ -	$ -	$ 317,440

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.