

Gratiot-Isabella Regional Education Service District
Ithaca, Michigan

Financial Statements
With Supplementary Information
June 30, 2019



Gratiot-Isabella Regional Education Service District
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June 30, 2019

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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, 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

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

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

September 23, 2019

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2019

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, 2019. Please read this discussion and analysis in conjunction with the District's financial statements beginning on page 1.

I. Description of the Basic Financial Statements

District-Wide Financial Statements

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

Fund Financial Statements

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

Reconciliation

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

Proprietary Fund

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

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Trust and Agency Funds

The Statement of Fiduciary Net Position on page 10 presents the resources held for the benefit of other individuals and/or entities. These amounts are not reflected in the Government-Wide Financial Statements because these resources are not intended to be used to finance the operations of the District.

II. Condensed Government-Wide Financial Information

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

Current assets increased significantly over the prior year primarily due to the excess of revenues over expenditures (modified accrual basis) in the governmental funds of \$1,184,746 and the receipt of two large state grants during the year \$1,694,444 (Marshall Plan \$1,248,163 and Mental Health \$446,286) that were unspent at year end.

The increase in capital assets net of depreciation indicates that capital assets have been replaced at a faster rate than they are depreciating. This was expected since the District made renovations to buildings, resurfaced parking lots, and purchased furniture during the year. Capital assets purchased during the year totaled \$546,661 while current year depreciation was \$283,086. Capital assets with a book value of \$5,801 (net of depreciation) were retired/scrapped during the year.

Deferred outflows increased for the year by \$5,662,364 due primarily to a change in assumptions, contributions subsequent to measurement date, and a change in the proportion and differences between District contributions and proportionate share of pension/OPEB contributions overall. See Note 11 and 12 on page 22 and 26 respectively for more information.

The current liabilities increased significantly from the prior year primarily due to the receipt of two large state grants received during the year \$1,694,444 (Marshall Plan \$1,248,163 and Mental Health \$446,286) that were unspent at year end and included in unearned revenues.

The increase in noncurrent liabilities of \$4,397,088 is due primarily to the increase in net pension liability of \$5,452,296 which can vary significantly from one year to the next based on the many variables used to actuarially determine that amount each year. This amount was partially offset by a decrease in the OPEB liability of \$837,137 which is also subject to significant variation from one year to the next based on the many variables used to actuarially determine that amount each year.

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
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Deferred outflows increased for the year by \$2,836,465 due primarily to the net difference between projected and actual earnings on pension plan investments (\$1,010,366) and the difference between actual and expected experience on OPEB usage (\$1,699,007). See Note 11 and 12 on page 22 and 26 respectively for more information.

The total net position for governmental activities decreased by 0.66% for the period or \$125,505.

All information presented in Table 1 relates to governmental activities.

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Current Assets	\$ 19,536,435	\$ 16,504,381	\$ 3,032,054
Noncurrent Assets	4,829,109	4,571,335	257,774
Total Assets	<u>\$ 24,365,544</u>	<u>\$ 21,075,716</u>	<u>\$ 3,289,828</u>
Deferred Outflows of Resources	<u>\$ 15,378,111</u>	<u>\$ 9,715,747</u>	<u>\$ 5,662,364</u>
Current Liabilities	\$ 6,382,068	\$ 4,537,924	\$ 1,844,144
Noncurrent Liabilities	46,273,765	41,876,677	4,397,088
Total Liabilities	<u>\$ 52,655,833</u>	<u>\$ 46,414,601</u>	<u>\$ 6,241,232</u>
Deferred Inflows of Resources	<u>\$ 6,329,269</u>	<u>\$ 3,492,804</u>	<u>\$ 2,836,465</u>
Investment in Capital Assets (Net of Related Debt)	\$ 4,596,364	\$ 4,253,895	\$ 342,469
Restricted	9,828,193	8,373,980	1,454,213
Unrestricted	-33,666,004	-31,743,817	-1,922,187
Total Net Position	<u>\$ -19,241,447</u>	<u>\$ -19,115,942</u>	<u>\$ -125,505</u>

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

Charges for Services increased by \$362,166 due primarily to a Medicaid Fee for Service revenue increase of \$376,312 related to increased billing for medical services.

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Operating Grants and Contributions increased by \$242,758 primarily due to a new grant received of \$193,261 for the operation of a preschool program for a constituent district.

State Aid Not Restricted to Specific Purposes increased by \$817,042 over the prior year. At the end of each fiscal year, an adjusting entry is made on the government wide financial statements to adjust revenues in support of pension contributions made subsequent to the measurement date. In the prior year that adjustment caused a reduction of these revenues of \$596,810 and in the current year an increase of these revenues of \$129,733 for a total year over year difference of \$726,543.

Table 2
Comparative Summary of Program, General, and Total Revenues
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Charges for Services	\$ 4,058,030	\$ 3,695,864	\$ 362,166
Operating Grants and Contributions	<u>14,380,149</u>	<u>14,137,391</u>	<u>242,758</u>
Total Program Revenues	<u>\$ 18,438,179</u>	<u>\$ 17,833,255</u>	<u>\$ 604,924</u>
Property Taxes	\$14,609,997	\$14,286,612	\$ 323,385
State Aid Not Restricted to Specific Purposes	1,468,704	651,662	817,042
Restricted Interest and Investment Earnings	28,988	-	28,988
Unrestricted Interest and Investment Earnings	212,873	115,155	97,718
Other	<u>158,322</u>	<u>117,825</u>	<u>40,497</u>
Total General Revenues	<u>\$16,478,884</u>	<u>\$15,171,254</u>	<u>\$ 1,307,630</u>
Total Revenues	<u>\$34,917,093</u>	<u>\$33,004,509</u>	<u>\$ 1,912,554</u>

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

Instruction costs increased by \$796,639 over the prior year primarily due to the change in the pension/OPEB liabilities, changes in the pension/OPEB deferred outflows, and changes in the pension/OPEB inflows totaling \$677,788.

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Support Services increased by \$1,459,843 over the prior year primarily due to the change in the pension/OPEB liabilities, changes in the pension/OPEB deferred outflows, and changes in the pension/OPEB inflows totaling \$1,143,812. The costs also increased due to an expansion of special education programs, wage increases, and the rising cost of employee benefits.

Depreciation – Unallocated is no longer reported separately in the Statement of Activities. Depreciation is now allocated to Instruction, Support Services, and Community Services depending on the use of those fixed assets.

Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Instruction	\$8,892,216	\$8,095,577	\$ 796,639
Support Services	18,624,872	17,165,029	1,459,843
Community Services	1,553,038	1,346,090	206,948
Other	5,972,442	6,193,497	-221,055
Depreciation – Unallocated	-	268,984	-268,984
Total Expenses	<u>\$35,042,568</u>	<u>\$33,069,177</u>	<u>\$ 1,973,391</u>

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

Governmental Activities

The net position and changes in net position are presented in table 4 below.

Table 4
Comparative Summary of Net Position and Changes in Net Position
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Governmental Type Activities:			
Net Position–Beginning	\$-19,115,942	\$-8,784,390	
Adjustment to Restate Beginning			
Net Position (See Note 16)	-	-10,266,884	
Net Position-Beginning Restated	-19,115,942	-19,051,274	
Increase (Decrease) in Net Position	-125,505	-64,668	\$-60,837
Net Position – Ending	<u>\$-19,241,447</u>	<u>\$-19,115,942</u>	

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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, Section 52, and Section 56. Stated funded Career and Technical Education including the Marshall Grant. State funded retirement costs. Federal special education grants including IDEA Flow Through and Preschool Incentive.
Support Services	State Special Education funding including Section 51, Section 52, and Section 56. Other State funding including

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Management Discussion and Analysis
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Early Literacy Teacher Coaches, Vocational Education Administration, First Robotics, Great Start ECIC Collaborative, Michigan Model Health, and retirement costs. Federal grants including, CTE Perkins, IDEA Flow Through, Supervision Grant, Infant/Toddler Formula, 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 Special Education Fund, the Cooperative Education Fund, Capital Projects Fund and Internal Service Fund.

The Special Education Fund had a significant increase in fund equity because of an unexpected Medicaid settlement from a prior year and the pupil transportation costs were less than anticipated.

The Cooperative Education Fund had a significant increase in fund equity because funds set aside for future facility maintenance costs were unexpended at year end.

The Capital Projects Fund had a significant decrease in fund equity because funds that were set aside in prior years were expended during the year for a new parking lot.

The Internal Service Fund had a significant increase in net position because of a better than expected claims experience for medical and dental claims.

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

	Revenues and Other Financing <u>Sources</u>	Net Change in Fund Balance <u>From Prior Year</u>	Percent Change in Fund Balance as a Percent of Revenues and Other Financing <u>Sources</u>
General	\$5,437,178	\$ 45,560	0.84%
Special Education	23,947,132	891,481	3.72%
Vocational Education	3,417,655	-97,808	-2.86%
Cooperative Education	3,543,529	401,225	11.32%
Funded Projects	1,529,814	-4	0.00%
Capital Projects	28,986	-55,709	192.19%
Debt Service	84,696	1	0.00%
Internal Service	2,961,806	153,804	5.19%

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.

Gratiot-Isabella Regional Education Service District
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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, this fund generally does not operate at a profit or loss.

Capital Projects

The District has set aside money to fund large construction projects in the future such as roof replacement, HVAC replacement, parking lot repairs, and to make bond payments. Money is 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 plan. 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, 2019 the original budget was adopted on June 20, 2018. The original budget is adopted before the enrollment is known, some grants are awarded, and some staff is hired. Many assumptions are therefore made in constructing the budget. Often there are a number of unforeseen events that occur throughout the year

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
For the Year Ended June 30, 2019

that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2019 are as follows:

General Fund

Changes from Original Budget to Final Budget

State Sources – The original budget reflected an increase in state funding for the unfunded retirement liability. Later it was determined that the funding would actually be reduced and the budgeted amount was reduced by \$241,089.

Other Financing Sources-Transfers In – The original budget did not reflect a transfer in from the Vocational Education Fund to pay for business services. The budget was later amended to reflect such a transfer in the amount of \$80,198.

Variances between Final Budget and Actual Amounts

No individually significant variances.

Special Education Fund

Changes from Original Budget to Final Budget

State Sources – The budget was amended to reflect an increase of the special education costs reimbursed for the prior year, which also caused the current year reimbursement to increase by that same amount, resulting in an overall increase of \$358,291. The District also received an increased reimbursement for lost personal property tax from the State of \$90,712 due to property tax reform. The reimbursement for lost personal property tax is difficult to project because this was only the third year in which the district received those funds and data isn't available in advance to reasonably estimate the payment.

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

Support Services – Pupil Transportation – The original budget for pupil transportation was increased over the previous year to reflect an upward trend experienced in recent years. It was later it was determined that those

Gratiot-Isabella Regional Education Service District
Management Discussion and Analysis
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costs would not increase so dramatically and were adjusted downward in a later budget.

Other Financing Sources – Transfers In – The transfers in from the General Fund was increased from the original budget because expenditures in the Special Education Fund had been outpacing revenues.

Variances between Final Budget and Actual Amounts

Federal Sources – The District utilized \$289,766 less in Federal IDEA funds than expected and \$73,558 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 – During the year, the district was awarded a new grant (Marshall Plan) for the purchase of new equipment for Career and Technical Education in the amount of \$369,833.

Other Expenditures – The amount budgeted to reimburse districts for the operation of Career and Technical Education programs was increased mostly due to a new grant (Marshall Plan) to purchase equipment that was awarded during the year.

Variances between Final Budget and Actual Amounts

State Sources – A portion of the Marshall Plan grant to purchase new equipment for Career and Technical Education was not spent during the year so the revenue was not recognized (\$253,033).

Other Expenditures – A portion of the amount budgeted to reimburse districts for the purchase of new equipment for the Career and Technical Education programs under the Marshall Plan grant was not reimbursed because the equipment was not received by those districts before fiscal year end (\$253,033).

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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 new glass storefront at Winding Brook Conference Center, new steel siding on the Mahoney building, a new parking lot at the GTEC building, and various other smaller projects.

Furniture – Purchased some cubicles for the Mahoney building and replaced an operable wall at the GTEC building.

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

Construction in Process – New projects started during the year included a new parking lot at Winding Brook Conference Center. Projects completed during the year which were started in the previous year included the glass storefront at Winding Brook Conference Center and the steel siding on 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 also on page 20.

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

In the current year, the District had \$34,787,330 in revenues of which \$14,609,997 or 42% was from property taxes. Approximately 12% of the property tax revenue is derived from 254 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 2028. One exception to this trend, however, is the construction of additional wind turbines. One new wind farm went on line during this past year and several other wind farms are either currently under construction or are expected to begin

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construction over the next two years. These new wind farms will bring the total number of wind turbines located in the district to approximately 600. This will boost the district's property tax revenues dramatically in the short term followed by steady decline in those revenues as the wind turbines depreciate.

There is currently a court case being heard by the Michigan Tax Tribunal regarding the taxable value of wind turbines. The company that owns a wind farm in Michigan is arguing that the value of those wind turbines should be reduced by 46%. Even though the wind farm in this case is not located in this District, the company bringing suit also owns many of the wind farms in this District. The outcome of this case could have a negative impact future property taxes for our District since the same argument could be made for any wind farm in Michigan.

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, 2019

Assets

Current assets	
Cash and investments	\$ 16,217,291
Accounts receivable	2,758
Due from other governmental units	2,968,828
Prepaid expenses	347,558
Total current assets	19,536,435
Noncurrent assets	
Capital assets not being depreciated	188,959
Capital assets being depreciated, net	4,640,150
Total noncurrent assets	4,829,109
Total assets	24,365,544

Deferred outflows of resources

Deferred outflow - related to pension	13,360,079
Deferred outflow - related to other post employment benefits	2,018,032
Total deferred outflows of resources	15,378,111

Liabilities

Current liabilities	
Accounts payable	1,545,532
Salaries payable and related accruals	1,875,206
Unearned revenues	2,282,062
Incurred but not reported claims (IBNR)	430,556
Compensated absences, due within one year	15,967
Long-term obligations, due within one year	232,745
Total current liabilities	6,382,068
Non-current liabilities	
Compensated absences, due beyond one year	90,477
Net pension liability	36,450,366
Net other post employment benefits liability	9,732,922
Total non-current liabilities	46,273,765
Total liabilities	52,655,833

Deferred inflows of resources

Deferred inflow - related to pension	2,786,510
Deferred inflow - related to other post employment benefits	2,187,848
Deferred inflow - 147c allocation	1,354,911
Total deferred inflows of resources	6,329,269

Net position

Net investment in capital assets	4,596,364
Restricted for:	
Special Education	5,055,662
Vocational Education	882,046
Cooperative Education	1,967,991
Funded Projects	6,142
Capital Projects	1,916,256
Debt Service	96
Unrestricted	(33,666,004)
Total net position	\$ (19,241,447)

Gratiot-Isabella Regional Education Service District
Statement of Activities
For the Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues		Net Revenues (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 8,892,216	\$ -	\$ 4,041,984	\$ (4,850,232)
Support services	18,624,872	4,058,030	8,280,542	(6,286,300)
Community service	1,553,038	-	1,366,540	(186,498)
Other	5,972,442	-	691,083	(5,281,359)
Totals	<u>\$ 35,042,568</u>	<u>\$ 4,058,030</u>	<u>\$ 14,380,149</u>	(16,604,389)
General revenues:				
Property taxes				14,609,997
State aid not restricted to specific purposes				1,468,704
Restricted interest and investment earnings				28,988
Unrestricted interest and investment earnings				212,873
Other				158,322
Total general revenues				<u>16,478,884</u>
Change in net position				(125,505)
Net position - beginning				<u>(19,115,942)</u>
Net position - ending				<u>\$ (19,241,447)</u>

FUND FINANCIAL STATEMENTS



Gratiot-Isabella Regional Education Service District
Balance Sheet - Governmental Funds
June 30, 2019

	Major Funds					Total Nonmajor Funds	Total Governmental Funds
	General	Special Education	Vocational Education	Cooperative Education	Capital Projects		
Assets							
Cash and investments	\$ 3,132,793	\$ 6,240,778	\$ 2,208,737	\$ 1,943,544	\$ 1,916,256	\$ 3,789	\$ 15,445,897
Accounts receivable	1,133	1,500	-	125	-	-	2,758
Due from other governmental units	532,091	1,567,859	345,569	225,407	-	297,902	2,968,828
Due from other funds	194,290	-	-	1,065	-	-	195,355
Prepaid expenses	7,108	26,324	814	513	-	17,083	51,842
Total assets	<u>\$ 3,867,415</u>	<u>\$ 7,836,461</u>	<u>\$ 2,555,120</u>	<u>\$ 2,170,654</u>	<u>\$ 1,916,256</u>	<u>\$ 318,774</u>	<u>\$ 18,664,680</u>
Liabilities							
Accounts payable	\$ 34,945	\$ 708,523	\$ 421,112	\$ 100,032	\$ -	\$ 2,414	\$ 1,267,026
Salaries payable and related accruals	52,589	1,693,504	2,662	23,040	-	103,411	1,875,206
Due to other funds	-	5,962	323	-	-	189,070	195,355
Unearned revenues	607,777	346,486	1,248,163	79,078	-	558	2,282,062
Total liabilities	<u>695,311</u>	<u>2,754,475</u>	<u>1,672,260</u>	<u>202,150</u>	<u>-</u>	<u>295,453</u>	<u>5,619,649</u>
Fund balance							
Non-spendable	7,108	26,324	814	513	-	17,083	51,842
Restricted	-	5,055,662	882,046	1,967,991	1,916,256	6,238	9,828,193
Undesignated	3,164,996	-	-	-	-	-	3,164,996
Total fund balance	<u>3,172,104</u>	<u>5,081,986</u>	<u>882,860</u>	<u>1,968,504</u>	<u>1,916,256</u>	<u>23,321</u>	<u>13,045,031</u>
Total liabilities and fund balance	<u>\$ 3,867,415</u>	<u>\$ 7,836,461</u>	<u>\$ 2,555,120</u>	<u>\$ 2,170,654</u>	<u>\$ 1,916,256</u>	<u>\$ 318,774</u>	<u>\$ 18,664,680</u>

The notes are an integral part of these financial statements.

Gratiot-Isabella Regional Education Service District
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 to the Net Position of Governmental Activities on the Statement of Net Position
 June 30, 2019

Total fund balance - governmental funds	\$ 13,045,031
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	7,796,594
Deduct: Accumulated depreciation	(2,967,485)
Other amounts reported in the statement of activities that do not require current financial resources consist of:	
Deduct: Compensated absences payable	(106,444)
Add: Deferred outflow - related to pension	13,360,079
Add: Deferred outflow - related to other post employment benefits	2,018,032
Deduct: Net pension liability	(36,450,366)
Deduct: Net other post employment benefits	(9,732,922)
Deduct: Deferred inflow - related to pension	(2,786,510)
Deduct: Deferred inflow - related to other post employment benefits	(2,187,848)
Revenue in support of pension contributions made subsequent to the measurement date.	
Deduct: Deferred inflow - 147c allocation	(1,354,911)
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	(232,745)
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 fund are included in the governmental activities in the statement of net position.	
Add: Internal service assets and liabilities in the statement of net position	358,048
Net position of governmental activities	\$(19,241,447)

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2019

	Major Funds					Total Nonmajor Funds	Total Governmental Funds
	General	Special Education	Vocational Education	Cooperative Education	Capital Projects		
Revenues							
Local sources	\$ 1,076,015	\$ 12,289,875	\$ 2,791,173	\$ 1,501,665	\$ 28,986	\$ 4,012	\$ 17,691,726
Non-educational entity	-	-	-	75,742	-	-	75,742
State sources	2,447,836	6,518,753	135,600	506,459	-	129,838	9,738,486
Federal sources	-	3,725,916	490,882	262,237	-	1,395,964	5,874,999
Other sources	909,779	334,588	-	162,009	-	1	1,406,377
Total revenues	4,433,630	22,869,132	3,417,655	2,508,112	28,986	1,529,815	34,787,330
Expenditures							
Instruction							
Added needs	-	8,261,425	-	-	-	-	8,261,425
Total instruction	-	8,261,425	-	-	-	-	8,261,425
Support services							
Pupil	82,236	6,570,347	35,468	414,574	-	-	7,102,625
Instructional staff	1,005,227	69,120	213,588	211,379	-	-	1,499,314
General administration	485,948	319,484	4,536	-	-	4,000	813,968
School administration	-	714,336	-	-	-	-	714,336
Business	1,211,027	325,289	31,614	5,365	-	32,494	1,605,789
Operation and maintenance	214,327	268,709	-	856,266	-	249,926	1,589,228
Pupil transportation	-	3,082,217	49	-	-	-	3,082,266
Central	1,004,436	149,358	-	272,395	-	2,066	1,428,255
Other support services	-	-	-	16,880	-	-	16,880
Total support services	4,003,201	11,498,860	285,255	1,776,859	-	288,486	17,852,661
Community services	-	35,040	-	220,033	-	1,176,288	1,431,361
Debt service	-	-	-	-	-	84,695	84,695
Other	-	2,353,926	3,150,010	403,462	-	65,044	5,972,442
Total expenditures	4,003,201	22,149,251	3,435,265	2,400,354	-	1,614,513	33,602,584
Revenues over (under) expenditures	430,429	719,881	(17,610)	107,758	28,986	(84,698)	1,184,746
Other financing sources (uses)							
Transfers in	1,003,548	1,078,000	-	1,035,417	-	84,695	3,201,660
Transfers (out)	(1,388,417)	(906,400)	(80,198)	(741,950)	(84,695)	-	(3,201,660)
Net change in fund balances	45,560	891,481	(97,808)	401,225	(55,709)	(3)	1,184,746
Fund balance - beginning	3,126,544	4,190,505	980,668	1,567,279	1,971,965	23,324	11,860,285
Fund balance - ending	\$ 3,172,104	\$ 5,081,986	\$ 882,860	\$ 1,968,504	\$ 1,916,256	\$ 23,321	\$ 13,045,031

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, 2019

Net change in fund balances - total governmental funds \$ 1,184,746

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	546,661
Deduct:	Depreciation expense	(283,086)
Deduct:	Loss on disposal of capital assets	(5,801)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct:	Change in accrual for compensated absences	(17,264)
Add:	Change in deferred outflow - related to pension	4,305,329
Add:	Change in deferred outflow - related to other post employment benefits	1,357,035
Deduct:	Change in net pension liability	(5,452,296)
Add:	Change in net other post employment benefits	837,137
Deduct:	Change in deferred inflow - related to pension	(1,135,695)
Deduct:	Change in deferred inflow - related to other post employment benefits	(1,830,503)

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

Add:	Change in deferred inflow - 147c allocation	129,733
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Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add:	Principal payment on 2009 improvement bonds	84,695
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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	153,804
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Change in net position of governmental activities	\$ (125,505)
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Gratiot-Isabella Regional Education Service District
Statement of Net Position - Proprietary Fund
June 30, 2019

	Internal Service Fund
Assets	
Current assets	
Cash and investments	\$ 771,394
Prepaid expenses	295,716
Total current assets	<u>1,067,110</u>
Liabilities	
Current liabilities	
Accounts payable	278,506
Incurred but not reported claims (IBNR)	<u>430,556</u>
Total current liabilities	<u>709,062</u>
Net position	
Unrestricted	<u>\$ 358,048</u>

Gratiot-Isabella Regional Education Service District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Year Ended June 30, 2019

	Internal Service Fund
Operating revenues	
Employer health and dental premiums	\$ 2,954,386
Total operating revenues	<u>2,954,386</u>
Operating expenses	
Medical and dental claims	2,614,935
Purchased services	171,466
Other	21,601
Total operating expenses	<u>2,808,002</u>
Operating income	146,384
Non operating revenues	
Interest income	<u>7,420</u>
Net change in net position	153,804
Net position - beginning	<u>204,244</u>
Net position - ending	<u><u>\$ 358,048</u></u>

Gratiot-Isabella Regional Education Service District
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2019

	Internal Service Fund
Cash flows from operating activities	
Employer health and dental premiums	\$ 2,954,386
Payment of medical and dental claims	(2,083,136)
Payment of purchased services	(171,466)
Other payments	(21,601)
Net cash provided by operating activities	678,183
Cash flows from investing activities	
Interest received	7,420
Cash flows from non-capital financing activities	
Payments from other funds	(268,125)
Net change in cash and cash equivalents	417,478
Cash and cash equivalents - beginning	353,916
Cash and cash equivalents - ending	\$ 771,394
 Reconciliation of operating income to net cash provided by operating activities:	
Operating Income	\$ 146,384
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Prepaid expenses	75,984
Accounts payable	278,506
Incurred but not reported claims (IBNR)	177,309
Net cash provided by operating activities	\$ 678,183

Gratiot-Isabella Regional Education Service District
Statement of Fiduciary Net Position
June 30, 2019

	Agency Fund
Assets	
Cash	\$ 29,154
Total assets	<u>29,154</u>
Liabilities	
Accounts payable	125
Due to student activities	29,154
Total liabilities	<u>29,279</u>
Net Position	<u><u>\$ -</u></u>

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 activity, Vocational Education activity and Cooperative Education activity 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 Funded Projects activity in the special revenue fund.
- 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 of accounting for reporting its assets and liabilities.

Budgetary Basis of Accounting

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

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

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

- The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

- Public hearings are conducted to obtain taxpayer comments.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

- Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
- Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30. The District does not consider these amendments to be significant.

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

Cash and Cash Equivalents

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

Investments

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

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

Inventory

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

Prepaid expenses

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

Due from/to other funds

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

Capital Assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated 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.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

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
Furniture	7
MMNet System	20
Technology Equipment	5 – 7

The District reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a related expense is recognized in the current year.

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.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

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

Gratiot-Isabella Regional Education Service District
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- 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	400
Checking, Savings, & Money Market Accounts	3,191,125
Investments - MILAF	13,025,766
Total	16,217,291

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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, 2019, 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, 2019, \$4,145,153 of the District's bank balance of \$4,645,153 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.

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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	12,088,414	0.1479	AAAm	92.8%
MILAF External Investment pool-MIMAX	963,566	0.1479	AAAm	7.4%
Accrued interest	(26,214)			
Total	13,025,766			

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

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

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

Receivable fund	Amount	Payable fund	Amount
General Fund	194,290	Special Education	5,962
Cooperative Education	1,065	Vocational Education	323
		Funded Projects	189,070
Total	195,355	Total	195,355

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 of Michigan	2,423,356
Federal grants and other pass-through agencies	545,472
Total	2,968,828

No allowance for doubtful accounts is considered necessary.

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land	183,159	-	-	-	183,159
Construction in process	79,180	5,800	-	(79,180)	5,800
Total capital assets not being depr.	262,339	5,800	-	(79,180)	188,959
Capital assets being depreciated					
Buildings and improvements	6,222,618	508,520	(6,080)	79,180	6,804,238
Equipment	235,891	-	-	-	235,891
Furniture	101,939	32,341	-	-	134,280
MMNET system	74,620	-	-	-	74,620
Technology equipment	358,606	-	-	-	358,606
Total capital assets being depr.	6,993,674	540,861	(6,080)	79,180	7,607,635
Accumulated depreciation					
Buildings and improvements	(2,282,182)	(225,382)	279	-	(2,507,285)
Equipment	(104,685)	(23,179)	-	-	(127,864)
Furniture	(28,032)	(11,185)	-	-	(39,217)
MMNET system	(74,620)	-	-	-	(74,620)
Technology equipment	(195,159)	(23,340)	-	-	(218,499)
Total accumulated depreciation	(2,684,678)	(283,086)	279	-	(2,967,485)
Net capital assets being depreciated	4,308,996	257,775	(5,801)	79,180	4,640,150
Net capital assets	4,571,335	263,575	(5,801)	-	4,829,109

Depreciation for the year ended June 30, 2019th totaled \$283,086 and was allocated as follows:

Governmental Activities	Amount
Instruction	3,990
Support services	248,031
Community services	31,065
Total depreciation	283,086

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.

Gratiot-Isabella Regional Education Service District
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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.

Direct borrowings and direct placements:

2009 School Improvement Bonds – Bonds due in annual set-aside payments of \$84,695 through October 1, 2019 (interest rate of 0%)	232,745
Total direct borrowings and direct placements:	232,745

The District's outstanding bonds from a direct placement related to governmental activities with an outstanding balance of \$232,745 contain certain provisions in the event of a default. A default may occur either by (1) the inability to make principal and interest payments, (2) false statements or misrepresentations made to the lender, (3) insolvency or making an assignment for the benefit of its creditors, or (4) if the lender, at any time, believes in good faith that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, outstanding amounts, including principal and accrued interest (if any) becomes immediately due and payable.

Summary of Long-Term Debt

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

	Beginning Balance	Additions	(Deletions)	Ending Balance	Due within one year
Long-term debt					
Compensated absences	89,180	30,641	(13,377)	106,444	15,967
Direct placements	317,440	-	(84,695)	232,745	232,745
Total long-term debt	406,620	30,641	(98,072)	339,189	248,712

The requirements to pay principal and interest on the long-term debt outstanding at June 30, 2019, are shown below:

Year Ended June 30	Direct Placements	
	Principal	Interest
2020	232,745	-
Total long-term debt	232,745	-

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	188,959
Capital asset being depreciated, net	4,640,150
Capital related general obligation bonds	(232,745)
Net investment in capital assets	4,596,364

NOTE 9 - OPERATING LEASES

The District entered into operating lease agreements for office space and copiers. 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 \$212,566.

The future minimum lease obligations as of:

Year Ending June 30	Amount
2020	214,080
2021	60,333
2022	9,084
2023	1,514

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.

Gratiot-Isabella Regional Education Service District
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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 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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018.

Benefit Structure	Member	District
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0%	17.89%
Pension Plus	3.0 - 6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

Required contributions to the pension plan from the District were \$3,301,702 for the year ended September 30, 2018.

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

At June 30, 2019, the District reported a liability of \$36,450,366 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. The Districts' proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the Districts' proportion was 0.1212514%, which was an increase of 0.00163350% from its proportion measured as of September 30, 2017.

For the year ending June 30, 2019, the District recognized pension expense of \$5,616,357. At June 30, 2019, 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	169,137	264,878
Changes of Assumptions	8,441,875	-
Net difference between projected and actual earnings on pension plan investments	-	2,492,278
Changes in proportion and differences between District contributions and proportionate share of contributions	1,832,218	29,354
District contributions subsequent to the measurement date	2,916,849	-
Total	13,360,079	2,786,510

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Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. 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)	
2019	3,315,841
2020	2,324,627
2021	1,479,278
2022	536,974

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 at 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, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- MIP and Basic Plans:	7.05%
- Pension Plus Plan:	7.00%
- Pension Plus Plan 2:	6.00%
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	
- Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
- Active Members	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- *Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, 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: 4.5304*
- *Recognition period for assets in years: 5.0000*
- *Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

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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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
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, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. 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 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 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 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for the Hybrid Plan), as well as what 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 6.05% / 6.0% / 5.0%	Current Single Discount Rate Assumption 7.05% / 7.0% / 6.0%	1% Increase 8.05% / 8.0% / 7.0%
47,856,515	36,450,366	26,973,710

* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans. University employers provide only the Basic and MIP plans.

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, 2019, the District reported a payable of \$454,100 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019, consisting of pension contribution payable plus any other amounts owed to the pension plan including the UAAL payments for July and August 2019.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (RETIREE HEALTH CARE)

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.

Gratiot-Isabella Regional Education Service District
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June 30, 2019

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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2018.

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	6.44%
Personal Healthcare Fund (PHF)	0.00%	6.13%

Required contributions to the OPEB plan from the District were \$794,772 for the year ended September 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability of \$9,732,922 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, the district's proportion was 0.1224428%, which was an increase of 0.00308090% from its proportion measured as of October 1, 2017.

For the year ending June 30, 2019, the District recognized OPEB expense of \$525,264. At June 30, 2019, 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	-	1,811,547
Changes of Assumptions	1,030,721	-
Net difference between projected and actual earnings on OPEB plan investments	-	374,059
Changes in proportion and differences between employer contributions and proportionate share of contributions	232,733	2,242
Employer contributions subsequent to the measurement date	754,578	-
Total	2,018,032	2,187,848

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

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, 2020. 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)	
2019	(235,049)
2020	(235,049)
2021	(235,049)
2022	(158,862)
2023	(60,385)

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, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	7.15%
Projected Salary Increases:	2.75 – 11.5%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.0% Year 12
Mortality:	
- Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
- Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP- 2017 from 2006.
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 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, 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: 5.6018 for non-university employers.
- Recognition period for assets in years: 5.0000

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

- Full actuarial assumptions are available in the 2018 MPERS 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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
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, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. 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 7.15% 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 7.15%. 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 7.15%, 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 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
11,684,175	9,732,922	8,091,680

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

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 Rate	1% Increase
8,005,221	9,732,922	11,714,948

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

The District reported payables to the defined benefit OPEB plan in the amount of \$81,415 as of June 30, 2019.

NOTE 13 - TRANSFERS

During the year the following transfers were made between funds:

- The transfer of \$1,078,000 from the General Fund to the Special Education Fund was for \$148,000 for pre-Proposal A FICA and retirement. The other \$930,000 is the Special Education Fund’s share of section 147c pension UAAL funding from the State.
- The transfer of \$310,417 from the General Fund to the Cooperative Education Fund were made to cover shortfalls/match requirement for various programs such as \$101,000 for Winding Brook operations, \$75,000 for data processing, \$46,000 for instructional workshops, \$48,500 for Forest Hill, \$15,184 for School Safety, \$12,858 for Math Professional Learning Communities Grant, \$5,000 for imagination library, \$5,000 for Michigan Model Grant, and \$1,875 for the Robotics Grant..
- The transfer of \$906,400 from the Special Education Fund to the General Fund was 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 \$80,198 from the Vocational Education Fund to the General Fund was to reimburse the General Fund for services provided to the Vocational Education Fund including business services, technology services, operation/maintenance services and other administrative services.
- The transfer of \$16,949 from the Cooperative Education Fund to the General Fund was to reimburse the General Fund for indirect costs related to a number of different grants.
- The transfer of \$725,000 from the Cooperative Education Fund to the Cooperative Education Fund was for a transfer within the Cooperative Education Fund to set aside funds for current and future maintenance projects of \$725,000.
- The transfer of \$84,695 from the Capital Projects Fund to the Debt Service Fund was for the purpose of making a debt service payment on a bond issue 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, 2019 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 – 1.5 months, pharmacy – 0.5 months, dental claims – 0.5 months, administrative fee – 2.0 months and stop loss fee – 3.0 months; therefore, all of the June 30, 2019 balance of \$430,556 is expected to be paid the following year.

NOTE 15 - TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield

Gratiot-Isabella Regional Education Service District
Notes to the Financial Statements
June 30, 2019

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	2,865
City of Alma	48,831
City of Ithaca	8,540
City of Mt. Pleasant	82,250
City of St. Louis	13,095
Coe Township	1,132
Elba Township	4,555
Fulton Township	1,563
Isabella Township	468
Pine River Township	8,060
Union Township	49,171
Wheeler Township	3,411
Total	223,941

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 - 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 17 – 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 17 – RELATED PARTIES

Gratiot-Isabella RESD is serving as the operating and fiscal agent of MMNet. There is no written agreement between GIRESD and MMNet for these services. GIRESD has been given control and authority over the day-to-day engineering, acquisition, installation, and management of MMNet. Revenue received from members included \$409,024 to maintain the fiber network and the CIPA filter. Expenses paid to GIRESD included \$185,136 for technology staff to maintain and operate fiber network, servers and filter, and \$44,000 for business services, insurance and use of facilities.

NOTE 18 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability for the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

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, 2019

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 1,021,275	\$ 1,067,807	\$ 1,076,015	\$ 8,208
State sources	2,612,732	2,453,254	2,447,836	(5,418)
Federal sources	-	-	-	-
Other sources	909,210	900,902	909,779	8,877
Total revenues	<u>4,543,217</u>	<u>4,421,963</u>	<u>4,433,630</u>	<u>11,667</u>
Expenditures				
Support services				
Pupil	82,901	84,089	82,236	1,853
Instructional staff	953,540	1,015,817	1,005,227	10,590
General administration	529,420	525,961	485,948	40,013
Business	1,193,856	1,277,292	1,211,027	66,265
Operation and maintenance	276,826	227,490	214,327	13,163
Central	1,101,108	1,049,131	1,004,436	44,695
Total expenditures	<u>4,137,651</u>	<u>4,179,780</u>	<u>4,003,201</u>	<u>176,579</u>
Revenues over (under) expenditures	405,566	242,183	430,429	188,246
Other financing sources (uses)				
Transfers in	881,780	1,045,135	1,003,548	(41,587)
Transfers (out)	<u>(1,390,888)</u>	<u>(1,388,417)</u>	<u>(1,388,417)</u>	<u>-</u>
Net change in fund balance	(103,542)	(101,099)	45,560	146,659
Fund balance - beginning	<u>3,126,544</u>	<u>3,126,544</u>	<u>3,126,544</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,023,002</u>	<u>\$ 3,025,445</u>	<u>\$ 3,172,104</u>	<u>\$ 146,659</u>

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Special Education Fund
 For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 12,227,387	\$ 12,271,442	\$ 12,289,875	\$ 18,433
State sources	6,064,490	6,518,753	6,518,753	-
Federal sources	4,032,178	4,092,929	3,725,916	(367,013)
Other sources	250,000	321,811	334,588	12,777
Total revenues	<u>22,574,055</u>	<u>23,204,935</u>	<u>22,869,132</u>	<u>(335,803)</u>
Expenditures				
Instruction				
Added needs	8,426,248	8,297,976	8,261,425	36,551
Total instruction	<u>8,426,248</u>	<u>8,297,976</u>	<u>8,261,425</u>	<u>36,551</u>
Support services				
Pupil	6,670,474	6,882,078	6,570,347	311,731
Instructional staff	129,611	137,177	69,120	68,057
General administration	331,086	315,075	319,484	(4,409)
School administration	718,081	719,513	714,336	5,177
Business	255,369	297,932	325,289	(27,357)
Operation and maintenance	258,073	273,754	268,709	5,045
Pupil transportation	3,407,000	3,206,700	3,082,217	124,483
Central	144,071	159,451	149,358	10,093
Total support services	<u>11,913,765</u>	<u>11,991,680</u>	<u>11,498,860</u>	<u>492,820</u>
Community Services	43,844	35,039	35,040	(1)
Other	2,400,000	2,348,668	2,353,926	(5,258)
Total expenditures	<u>22,783,857</u>	<u>22,673,363</u>	<u>22,149,251</u>	<u>524,112</u>
Revenues over (under) expenditures	(209,802)	531,572	719,881	188,309
Other financing sources (uses)				
Transfers in	878,000	1,078,000	1,078,000	-
Transfers (out)	<u>(862,212)</u>	<u>(946,772)</u>	<u>(906,400)</u>	<u>40,372</u>
Net change in fund balance	(194,014)	662,800	891,481	228,681
Fund balance - beginning	<u>4,190,505</u>	<u>4,190,505</u>	<u>4,190,505</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,996,491</u>	<u>\$ 4,853,305</u>	<u>\$ 5,081,986</u>	<u>\$ 228,681</u>

Gratiot-Isabella Regional Education Service District
 Budgetary Comparison Schedule for the Vocational Education Fund
 For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 2,749,360	\$ 2,770,737	\$ 2,791,173	\$ 20,436
State sources	18,800	388,633	135,600	(253,033)
Federal Sources	421,117	490,882	490,882	-
Total revenues	<u>3,189,277</u>	<u>3,650,252</u>	<u>3,417,655</u>	<u>(232,597)</u>
Expenditures				
Support services				
Pupil	40,000	35,468	35,468	-
Instructional staff	228,358	218,860	213,588	5,272
General administration	7,500	10,000	4,536	5,464
Business	17,100	27,100	31,614	(4,514)
Pupil transportation	-	50	49	1
Total support services	<u>292,958</u>	<u>291,478</u>	<u>285,255</u>	<u>6,223</u>
Other	<u>2,908,589</u>	<u>3,591,044</u>	<u>3,150,010</u>	<u>441,034</u>
Total expenditures	<u>3,201,547</u>	<u>3,882,522</u>	<u>3,435,265</u>	<u>447,257</u>
Revenues over (under) expenditures	(12,270)	(232,270)	(17,610)	214,660
Other financing sources (uses)				
Transfers (out)	<u>-</u>	<u>(80,198)</u>	<u>(80,198)</u>	<u>-</u>
Net change in fund balance	(12,270)	(312,468)	(97,808)	214,660
Fund balance - beginning	<u>980,668</u>	<u>980,668</u>	<u>980,668</u>	<u>-</u>
Fund balance - ending	<u>\$ 968,398</u>	<u>\$ 668,200</u>	<u>\$ 882,860</u>	<u>\$ 214,660</u>

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

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

Description	Plan year Sept 30, 2018	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 (%)	0.1212514%	0.1196179%	0.1131821%	0.1087606%	0.10049205%
District's proportionate share of net pension liability	\$ 36,450,366	\$ 30,998,070	\$ 28,238,000	\$ 26,564,815	\$ 22,134,885
District's covered employee payroll	\$ 10,590,179	\$ 10,297,492	\$ 9,673,069	\$ 9,086,611	\$ 8,546,653
District's proportionate share of NPL as a percentage of its covered employee payroll (%)	344.19%	301.03%	291.92%	292.35%	258.99%
Plan fiduciary net position as a percentage of TPL	62.36%	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, 2019	Fiscal year June 30, 2018	Fiscal year June 30, 2017	Fiscal year June 30, 2016	Fiscal year June 30, 2015
Statutorily required pension contributions	\$ 3,201,807	\$ 3,235,981	\$ 2,797,974	\$ 2,592,117	\$ 1,951,434
Contributions in relation to statutorily required pension contributions	\$ 3,201,807	\$ 3,235,981	\$ 2,797,974	\$ 2,592,117	\$ 1,951,434
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 10,821,393	\$ 10,564,547	\$ 10,139,133	\$ 9,489,744	\$ 8,972,446
Contributions as a percentage of covered-employee payroll	29.59%	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, 2018	Plan year Sept 30, 2017
District's proportion of net OPEB liability (%)	0.1224428%	0.1193619%
District's proportionate share of net OPEB liability	\$ 9,732,922	\$ 10,570,059
District's covered employee payroll	\$ 10,590,179	\$ 10,297,492
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll (%)	91.91%	102.65%
Plan fiduciary net position as a percentage of total OPEB liability	42.95%	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, 2019	Fiscal year June 30, 2018
Statutorily required OPEB contributions	\$ 881,272	\$ 813,798
Contributions in relation to statutorily required OPEB contributions	\$ 881,272	\$ 813,798
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 10,821,393	\$ 10,564,547
Contributions as a percentage of covered-employee payroll	27.60%	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, 2019

	Funded Projects	Debt Service	Total Nonmajor Funds
Assets			
Cash and investments	\$ 3,693	\$ 96	\$ 3,789
Due from other governmental units	297,902	-	297,902
Prepaid expenses	17,083	-	17,083
Total assets	<u>\$ 318,678</u>	<u>\$ 96</u>	<u>\$ 318,774</u>
Liabilities			
Accounts payable	\$ 2,414	\$ -	\$ 2,414
Salaries payable and related accruals	103,411	-	103,411
Due to other funds	189,070	-	189,070
Unearned revenues	558	-	558
Total liabilities	<u>295,453</u>	<u>-</u>	<u>295,453</u>
Fund balance			
Non-spendable	17,083	-	17,083
Restricted	6,142	96	6,238
Total fund balance	<u>23,225</u>	<u>96</u>	<u>23,321</u>
Total liabilities and fund balance	<u>\$ 318,678</u>	<u>\$ 96</u>	<u>\$ 318,774</u>

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, 2019

	Funded Projects	Debt Service	Total Nonmajor Funds
Revenues			
Local sources	\$ 4,012	\$ -	\$ 4,012
State sources	129,838	-	129,838
Federal sources	1,395,964	-	1,395,964
Other sources	-	1	1
Total revenues	<u>1,529,814</u>	<u>1</u>	<u>1,529,815</u>
Expenditures			
Support services			
General administration	4,000	-	4,000
Business	32,494	-	32,494
Operation and maintenance	249,926	-	249,926
Central	2,066	-	2,066
Total support services	<u>288,486</u>	<u>-</u>	<u>288,486</u>
Community services	1,176,288	-	1,176,288
Debt service	-	84,695	84,695
Other	65,044	-	65,044
Total expenditures	<u>1,529,818</u>	<u>84,695</u>	<u>1,614,513</u>
Revenues over (under) expenditures	(4)	(84,694)	(84,698)
Other financing sources (uses)			
Transfers in	-	84,695	84,695
Net change in fund balances	(4)	1	(3)
Fund balance - beginning	<u>23,229</u>	<u>95</u>	<u>23,324</u>
Fund balance - ending	<u>\$ 23,225</u>	<u>\$ 96</u>	<u>\$ 23,321</u>

Gratiot-Isabella Regional Education Service District
General Fund
Statement of Revenues
For the Year Ended June 30, 2019

Local sources

Property taxes	\$ 728,765
Interest	57,699
Other local revenues	289,551
Total local sources	<u>1,076,015</u>

State sources

Grant-in-aid from State	2,418,981
State payment in lieu of tax	28,855
Total state sources	<u>2,447,836</u>

Other sources

Payments received from other public schools	909,779
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Other financing sources

Transfers from other funds	<u>1,003,548</u>
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Total revenues and other financing sources	<u><u>\$ 5,437,178</u></u>
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Gratiot-Isabella Regional Education Service District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2019

Support services

Pupil		
Salaries	\$	39,799
Employee benefits		38,595
Purchased services		3,842
Total pupil		<u>82,236</u>
 Instructional staff		
Salaries		420,259
Employee benefits		293,466
Purchased services		283,286
Supplies and materials		5,796
Other		2,420
Total instructional staff		<u>1,005,227</u>
 General administration		
Salaries		223,955
Employee benefits		138,670
Purchased services		96,902
Supplies and materials		5,198
Other		21,223
Total general administration		<u>485,948</u>
 Business		
Salaries		625,293
Employee benefits		449,043
Purchased services		54,790
Repairs and maintenance		2,000
Supplies and materials		67,243
Capital outlay		1,948
Other		10,710
Total business		<u>1,211,027</u>
 Operations and maintenance		
Salaries		46,796
Employee benefits		42,169
Purchased services		16,460
Repairs and maintenance		55,498
Supplies and materials		53,404
Total operations and maintenance		<u>214,327</u>

Gratiot-Isabella Regional Education Service District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2019

Support services (continued)

Central	
Salaries	\$ 349,786
Employee benefits	256,081
Purchased services	257,296
Supplies and materials	19,570
Capital outlay	500
Other	121,203
Total central	<u>1,004,436</u>
Total support services	4,003,201
Other financing uses	
Transfers out to other funds	<u>1,388,417</u>
Total expenditures	<u><u>\$ 5,391,618</u></u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Revenues
For the Year Ended June 30, 2019

Local sources	
Property taxes	\$ 11,127,462
Interest	106,687
Charges for services	1,047,692
Other local revenues	8,034
Total local sources	<u>12,289,875</u>
State sources	
Unrestricted	
State payment in lieu of tax	440,968
Restricted	
Special education - section 51	4,305,447
Special education - section 52	1,661,017
Special education - nonsection 52	1,023
Special education - section 56	110,298
Total state sources	<u>6,518,753</u>
Federal sources	
Restricted	
Infant / toddler formula	126,494
Supervision	118,800
P.L. 94-142 preschool incentive	134,794
P.L. 94-142 flowthrough	3,345,828
Total federal sources	<u>3,725,916</u>
Other sources	
Payments from other school districts	334,588
Total other sources	<u>334,588</u>
Other financing sources	
Transfers from other funds	1,078,000
Total other financing sources	<u>1,078,000</u>
Total revenues and other financing sources	<u><u>\$ 23,947,132</u></u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2019

Instruction

Added needs	
Salaries	\$ 3,866,663
Employee benefits	3,123,822
Purchased services	193,251
Repairs and maintenance	270
Supplies and materials	68,503
Capital outlay	5,738
Other expenditures	125
Payments to other schools for services	1,003,053
Total added needs	<u>8,261,425</u>

Support services

Pupil services	
Salaries	3,652,895
Employee benefits	2,504,454
Purchased services	213,475
Repairs and maintenance	977
Supplies and materials	90,684
Other	107,862
Total pupil services	<u>6,570,347</u>

Instructional staff

Salaries	30,086
Employee benefits	19,405
Purchased services	16,930
Repairs and maintenance	2,699
Total instructional staff	<u>69,120</u>

General administration

Salaries	164,422
Employee benefits	109,154
Purchased services	43,611
Supplies and materials	1,377
Other	920
Total general administration	<u>319,484</u>

School administration

Salaries	383,756
Employee benefits	281,995
Purchased services	22,742
Supplies and materials	25,453
Other	390
Total school administration	<u>714,336</u>

Gratiot-Isabella Regional Education Service District
Special Education Fund
Statement of Expenditures
For the Year Ended June 30, 2019

Support services (continued)	
Business services	
Salaries	\$ 19,317
Employee benefits	15,563
Purchased services	173,814
Repairs and maintenance	8,583
Supplies and materials	19,538
Other	88,474
Total business services	<u>325,289</u>
Operations and maintenance	
Salaries	22,709
Employee benefits	21,750
Purchased services	21,976
Repairs and maintenance	172,094
Supplies and materials	30,180
Total operations and maintenance	<u>268,709</u>
Pupil transportation	
Contracted services	3,080,868
Payments to other schools for services	1,349
Total pupil transportation	<u>3,082,217</u>
Central	
Salaries	53,498
Employee benefits	39,319
Purchased services	56,541
Total central	<u>149,358</u>
Total support services	11,498,860
Community services	
Non-public school pupils	
Salaries	22,724
Employee benefits	11,358
Purchased services	958
Total community services	<u>35,040</u>
Other expenditures	
Payments to other schools for services	<u>2,353,926</u>
Total other expenditures	2,353,926
Other financing uses	
Transfers out	<u>906,400</u>
Total other financing uses	<u>906,400</u>
Total expenditures	<u><u>\$ 23,055,651</u></u>

Gratiot-Isabella Regional Education Service District
Vocational Education Fund
Statement of Revenues
For the Year Ended June 30, 2019

Local sources

Property taxes	\$ 2,761,342
Interest	29,531
Other	300
Total local sources	<u>2,791,173</u>

State sources

Unrestricted	
Renaissance zone	7,502
Restricted	
Vocational education administration	14,500
Marshall plan	113,448
CTE incentive	150
Total state sources	<u>135,600</u>

Federal sources

Restricted	
Perkins	490,882
Total federal sources	<u>490,882</u>
Total revenues	<u><u>\$ 3,417,655</u></u>

Gratiot-Isabella Regional Education Service District
Vocational Education Fund
Statement of Expenditures
For the Year Ended June 30, 2019

Support services

Pupil		
Supplies and materials	\$	35,468
Total pupil		<u>35,468</u>
Instructional staff		
Salaries		117,834
Employee benefits		76,165
Purchased services		6,517
Supplies and materials		11,694
Other		<u>1,378</u>
Total instructional staff		213,588
General administration		
Purchased services		<u>4,536</u>
Total general administration		4,536
Business services		
Purchased services		<u>31,614</u>
Total business services		31,614
Central		
Purchased services		<u>49</u>
Total central		<u>49</u>
Total support services		285,255
Other expenditures		
Payments to other schools for services		<u>3,150,010</u>
Total other expenditures		3,150,010
Other financing uses		
Transfers out		<u>80,198</u>
Total other financing uses		<u>80,198</u>
Total expenditures	\$	<u><u>3,515,463</u></u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Revenues
 For the Year Ended June 30, 2019

Local sources	
Interest	\$ 10,907
Charges for services	45,111
Community service activities	1,219,659
Other local revenues	225,988
Total local sources	<u>1,501,665</u>
Non-educational entity	
United Way	26,293
Other non-educational entities	49,449
Total non-educational entity	<u>75,742</u>
State sources	
Restricted	
Michigan Model Health	87,198
Competitive school safety	20,365
Great Start	356,396
Early on	40,000
First Robotics	2,500
Total state sources	<u>506,459</u>
Federal sources	
Unrestricted	
Medicaid	40,082
Restricted	
Nutrition assistance	205,275
Other	16,880
Total federal sources	<u>262,237</u>
Other sources	
Payments from other schools for services	162,009
Total other sources	<u>162,009</u>
Other financing sources	
Transfers in	1,035,417
Total other financing sources	<u>1,035,417</u>
Total revenues	<u><u>\$ 3,543,529</u></u>

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Year Ended June 30, 2019

Support services

Pupil services	
Salaries	\$ 155,438
Employee benefits	112,072
Purchased services	72,115
Supplies and materials	9,170
Other	65,779
Total pupil services	414,574
Instructional staff	
Salaries	22,249
Employee benefits	21,419
Purchased services	40,441
Supplies and materials	20,390
Other	106,880
Total instructional staff	211,379
Business services	
Purchased services	5,365
Total business services	5,365
Operations and maintenance	
Salaries	40,137
Employee benefits	35,311
Purchased services	18,299
Repairs and maintenance	50,256
Supplies and materials	80,056
Capital outlay	631,907
Other	300
Total operations and maintenance	856,266
Central	
Salaries	99,977
Employee benefits	71,363
Purchased services	18,297
Repairs and maintenance	73,944
Supplies and materials	1,730
Other	7,084
Total central	272,395
Other support services	
Other	16,880
Total other support services	16,880
Total support services	1,776,859

Gratiot-Isabella Regional Education Service District
 Cooperative Education Fund
 Statement of Expenditures
 For the Year Ended June 30, 2019

Community services

Community services - direct	
Salaries	\$ 51,159
Employee benefits	44,223
Purchased services	2,339
Total community services - direct	97,721
Community recreation	
Purchased services	53,928
Supplies and materials	8,878
Other	2,537
Total community recreation	65,343
Community activities	
Purchased services	1,108
Repairs and maintenance	46
Supplies and materials	1,573
Other	1,230
Total community activities	3,957
Care and custody of children	
Purchased services	34
Total care and custody of children	34
Other community services	
Salaries	6,288
Employee benefits	3,668
Purchased services	34,932
Supplies and materials	7,291
Other	799
Total other community services	52,978
Total community services	220,033
Other expenditures	
Payments to other schools	403,462
Total other expenditures	403,462
Other financing uses	
Transfers out	741,950
Total other financing uses	741,950
Total expenditures	\$ 3,142,304

Gratiot-Isabella Regional Education Service District
Funded Projects Fund
Statement of Revenues
For the Year Ended June 30, 2019

Local sources

Interest	\$ 478
Other local revenues	3,534
Total local sources	<u>4,012</u>

State sources

Path	129,838
Total state sources	<u>129,838</u>

Federal sources

NAFTA grants	75,650
WIA program grants	1,320,314
Total federal sources	<u>1,395,964</u>

Total revenues	<u><u>\$ 1,529,814</u></u>
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Gratiot-Isabella Regional Education Service District
 Funded Projects Fund
 Statement of Expenditures
 For the Year Ended June 30, 2019

Support services

General administration	
Purchased services	\$ 4,000
Total general administration	4,000

Business

Salaries	20,075
Employee benefits	11,948
Other	471
Total business	32,494

Operations and maintenance

Purchased services	96
Repairs and maintenance	249,830
Total operations and maintenance	249,926

Central

Salaries	1,158
Employee benefits	908
Total central services	2,066

Community services

Other community service	
Salaries	541,019
Employee benefits	339,980
Purchased services	26,505
Supplies and materials	6,045
Capital outlay	1,900
Other	260,839
Total community services	1,176,288

Other expenditures

Payments to other governmental entity	65,044
Total other expenditures	65,044

Total expenditures	\$ 1,529,818
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